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Dear Mr Berlusconi...

Our challenge to Italy's prime minister

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Politics this week

Jul 31st 2003
From The Economist print edition

Seeking Saddam

The hunt for **Saddam Hussein** got hotter, with American troops capturing a man said to be one of the former dictator's bodyguards. An audiotape, purportedly recorded by Saddam and broadcast by an Arab satellite station, acknowledged the deaths of his sons and grandson and called them martyrs.

See article: Time for another UN resolution?

Ariel Sharon, visiting President George Bush in the steps of the Palestinian prime minister, said he would continue building Israel's controversial security fence. Mr Bush had previously called this a “problem” but agreed with Mr Sharon that the Palestinians had to dismantle terrorist organisations before anything else could happen.

AP

See article: Taking offence over a fence

The Saudi security services continued to pursue terrorist suspects, six of whom were killed in a shoot-out in north-western **Saudi Arabia**. America angered the Saudis by rejecting their request to declassify the section of a congressional report on September 11th 2001 that some say accuses the Saudi government of helping the terrorists.

See article: Anti-terrorism in Saudi Arabia

Rebels seized **Liberia's** second city, the port of Buchanan, but government troops counterattacked. A promised Nigerian-led west African peacekeeping force still failed to materialise, but America tabled a resolution at the UN preparing the ground for its deployment.

See article: Crunch time

Omar Bongo, **Gabon's** president for 35 years, secured a constitutional change that could let him remain in power indefinitely.

Zimbabwe's banks **ran out of banknotes**. The government blamed “hoarders”.

See article: Zimbabwe's hyperinflation

Generals and elections

Turkey's parliament passed new laws to reduce the ability of the country's army to interfere in politics. Earlier, another law was enacted to give a partial amnesty to fighters of the Kurdistan Workers' Party, better known as the PKK, some 5,000 of whom are in mountain refuges in northern Iraq.

See article: Change in Turkey?

Turkey's foreign minister, Abdullah Gul, visited Washington to discuss the possibility of **Turkish troops** serving as peacekeepers in Iraq (but not in the Kurdish north of the country) under the aegis of the United States. It remains unclear whether the troops will be sent.

A crisis within **Italy's** ruling four-party coalition was patched up when the justice minister said that a judicial inquiry into the business affairs of the prime minister, Silvio Berlusconi, should be allowed to go ahead after all, even though he recently acquired immunity from prosecution while in office. Otherwise the smallest coalition partner had threatened to withdraw, while the second-biggest, the post-fascist National Alliance, had also objected.

See article: Our open letter to Italy's prime minister

France's president, Jacques Chirac, on a tour of the Pacific, said that his country's testing of nuclear devices in the area had created no risk of a health hazard from radiation. But he said that France would accept responsibility if proof of such damage emerged.

Four tourists died in fires that destroyed thousands of acres of forest in the south of **France**. A local man was charged with starting some of the blazes. The area has not seen rain for months.

Contrary to our mistaken report last week, Platon Lebedev of Yukos, **Russia's** biggest oil company, is still in jail, and the stand-off between Yukos and prosecutors investigating the firm continues. A Kremlin official said this week that the government “formally has no influence” over the prosecutors—leaving it unclear whether it had lost its informal influence.

Britain has given a £3.5 billion ($5.7 billion), 25-year contract for manufacturing and servicing military-jet trainers to BAE Systems. Buying from abroad might have saved £1 billion, but cost hundreds of jobs.

Late budget

California's Assembly finally agreed to pass a budget, six weeks after the constitutional deadline to do so had lapsed. Swingeing spending cuts for health care and higher education, and heavy borrowing, will help towards closing a shortfall of $38 billion.

See article: Democrats in search of a hero

America's **prison population** grew by 2.6% in 2002 to nearly 2.2m according to the Department of Justice. One in ten black men aged between 25 and 29 was behind bars. The keenest incarcerator is Louisiana, with 794 prisoners for every 100,000 residents.

Attempts by the **Texas** legislature to redraw the state's congressional seats were again delayed after 11 Democratic senators flew to Albuquerque, New Mexico. This denied Republicans the quorum they need to pass the law.

Bob Hope, one of America's best-loved comedians, died at the age of 100. Half a million of his old jokes, many unused, are deposited in the Library of Congress.

See article: Bob Hope, comedian

AFP

Call for justice

Peru formally asked Japan to extradite Alberto Fujimori, its disgraced former president, to face criminal charges of murder and kidnapping arising from a “dirty war” against terrorism. Japan is unlikely to comply.

Cuba's president, Fidel Castro, devoted much of a speech marking a revolutionary anniversary to attacking the European Union. He said he would refuse EU humanitarian aid. This was a response to the EU's criticism of Cuba's human-rights abuses.

See article: Fifty years of Fidel Castro's revolution

Argentina's government revoked a decree banning the extradition of military officers on human-rights charges. An Argentine court earlier ordered the arrest of 45 officers whose extradition has been sought

by Baltasar Garzón, a crusading Spanish judge.

Military manoeuvres

A mutiny led by young army officers in the **Philippines**, calling for the government's resignation, was ended without bloodshed. The country's army intelligence chief, Brigadier-General Victor Corpus, resigned.

See article: Mutiny in the Philippines

Despite international pressure on Myanmar to free **Aung San Suu Kyi**, the country's detained opposition leader, its foreign minister, Win Aung, refused to name a date for her release. Red Cross officials who saw her in prison on July 29th said she was in good health.

See article: A showdown over Aung San Suu Kyi

The ruling **Cambodian** People's Party was heading for certain victory in a general election, according to projections, but would fall short of the two-thirds majority in the National Assembly needed to pass legislation. A coalition government seems likely.

See article: Cambodia's general election

An explosion in a fireworks factory in Xinji, northern **China**, killed some 29 people and injured more than 100.

Taliban guerrillas shot dead a member of a Muslim organisation that had said Muslims should support the American-backed government of **Afghanistan**.

See article: No model for Iraq

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Business this week

Jul 31st 2003
From The Economist print edition

Paying the price

Citigroup and **J.P. Morgan Chase** agreed to pay fines of $308m for “helping to commit a fraud” in offering services to Enron. American regulators also made the investment banks change their procedures for handling the type of financial arrangements that they deployed for the bust energy trader.

See article: Another settlement

Pearson pressure

Pearson, a British media conglomerate which owns half of *The Economist*, reported a pre-tax loss of £1m ($1.6m) in the first half, compared with a profit of £26m a year ago. Its educational-publishing arm suffered after hold-ups in the passage of state budgets in America had delayed text-book sales; and the *Financial Times* was hit by falling advertising revenues and flagging circulation.

Metro-Goldwyn-Mayer dropped out of an auction of the American entertainment arm of Vivendi Universal. MGM had offered around $11.5 billion. The French media group hopes one of the remaining bidders—Liberty Media, NBC, Viacom or Edgar Bronfman—will stump up nearer $14 billion.

The **De Beers** diamond cartel rekindled moves that would allow it to trade in America. The company, banned on antitrust grounds since the 1990s, claims to have cleaned up its act. It now controls only about 60% of the world's rough-diamond supplies and produces 43% of world output.

British Airways reported a loss of £45m ($73m) in its first quarter. The troubled airline also settled its dispute with unions over a new clocking-on system for check-in staff. But it says the wildcat strikes have cost it up to £40m, as well as causing untold damage to its reputation.

See article: British Airways' damaging strike

Volkwagen's profits fell by 49% in the second quarter, to *euro*394m ($447m). The news capped a bad few days for Europe's carmakers: **DaimlerChrysler** reported falling profits (hit by a poor performance at its American arm) as did **Peugeot Citroën**; and **Renault's** profits increased only after a strong showing at its Japanese Nissan unit.

See article: Europe's car industry

The French government raised *euro*1.2 billion ($1.4 billion) from the sale of 8.5% of **Renault**, taking advantage of the car company's relatively strong share price. It wants to raise some *euro*8 billion this year from asset sales to shore up its creaking budget.

Unilever reported that second-quarter profits had shrunk by 13% compared with a year ago, to *euro*595m ($646m). The Anglo-Dutch consumer-goods giant faces a slimming market for its diet aids, which have suffered from the success of the faddish Atkins diet in America.

Taking the medicine

Pfizer lost a whopping $3.6 billion in the second quarter, after profits of nearly $2 billion a year ago. The

American company, the world's biggest drugmaker, incurred charges of $5.9 billion after its acquisition of a rival drug firm, Pharmacia, in April.

Three chipmakers, ST Microelectronics, Texas Instruments and ARM, teamed up with Nokia to design chips for mobile phones, with the aim of stopping a Microsoft-Intel axis dominating the development of standards in the industry.

A week after **Sony** had reported a slender profit, **Matsushita**, a competitor for world domination in consumer electronics, announced that it had suffered a fall in profits. The Japanese firm made only ¥2.7 billion ($23m) in its latest quarter, down by 22% on the previous year.

Sales at **Japan Tobacco**, the world's third-largest cigarette company, were a king-sized 29% higher in the latest quarter compared with the previous three months, as canny Japanese smokers stocked up on the weed before a tax rise. **British American Tobacco** was not so fortunate. It reported a 25% drop in pre-tax profits in the first half-year, compared with a year ago, to £762m ($1.2 billion).

Oil well

Rising oil prices pushed **BP**'s second-quarter profits up by 42% over a year ago, to $3.1 billion. But BP's announcement that it would pay a “relatively minor” sum—up to $2 billion—into its pension fund pushed its shares down. **ConocoPhillips** and **Royal Dutch/Shell** also reported healthy profits.

The Pentagon dropped plans to create a futures market based on predicting **terrorist activity** and other political disasters. Punters would have bet on events in the Middle East through an online exchange. “Sick” and “grotesque” harrumphed American senators opposed to the scheme.

See article: The Pentagon's defunct market in mayhem

Future imperfect

America's economy grew by 2.4% at an annual rate in the second quarter. This was stronger than expected. The GDP deflator, however, rose by only 1.0%, compared with 2.4% in the previous quarter.

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Italy

Dear Mr Berlusconi...

Jul 31st 2003
From The Economist print edition

Why we are sending an open letter to the Italian prime minister

Get article background

TO HIS many other talents, Silvio Berlusconi has recently added that of ironist. The Italian prime minister entered the role of president of the European Union's Council of Ministers with a bang, by likening a German member of the European Parliament to a Nazi-era concentration camp guard. Many failed to see the joke. And the resulting imbroglio with the German government had a paradoxical effect: it distracted attention from the very accusation that the German MEP had been noisily making, namely that Mr Berlusconi has exploited his parliamentary majority in Italy to put himself beyond the reach of the law.

For that is indeed what he has done. Dogged by a series of judicial investigations and court cases when he entered office in 2001, Mr Berlusconi has managed to defeat the prosecutors and the courts. He secured the downgrading of the charge of false accounting for private companies, with retrospective effect, thus making accusations against him barred under the statute of limitations. He tried to change the rules on the admissibility of documents obtained from across the border in Switzerland, and tried to get the jurisdiction of his big remaining criminal trial moved. Finally, having failed with those measures he managed to bring in a law making Italy's prime minister, along with the country's other top officials, immune from prosecution during their time in office. As a democratically elected leader, with grave and onerous responsibilities to the people, Mr Berlusconi argued that he should not be made subject to the indignity of a trial. His justice minister, Roberto Castelli, went even further, causing a furore within the governing coalition last week by trying to block a judicial investigation into alleged tax fraud at Mr Berlusconi's biggest media company. (This week he was forced to relent.) It is beyond the prime minister's dignity even to be investigated.

He cannot be immune from the public

A serving prime minister should be answerable, on this argument, to the court of public opinion, not to courts of law. So, in an effort to make Mr Berlusconi answerable to the public, *The Economist* is this week sending him a challenge. We have drawn up a substantial dossier concerning his alleged misdeeds, backed up by documentary evidence. Most notably, for the criminal case which prompted the passing of the immunity law, concerning the alleged bribery of judges as part of the blocking of the sale of a state-owned food company, SME, the evidence we have assembled stands in sharp contradiction to the supposedly factual claims Mr Berlusconi made in court on May 5th this year, proclaiming his innocence.

We believe that, having made claims that appear to be at variance to the evidence, Mr Berlusconi must explain publicly why that evidence is wrong. Therefore, on the SME case, and on Mr Berlusconi's other trials and actions, we are sending our whole dossier to the Italian prime minister at Palazzo Chigi in Rome as an open letter, challenging him to answer our many questions. The full dossier, including the section concerning the SME case and his declarations in May, can be found here. We look forward to his reply.

Why Mr Berlusconi matters

Some readers, familiar with our previous investigative article on Mr Berlusconi published on April 28th 2001, when we said that he was not fit to run Italy, may wonder why we are continuing to investigate him and to pose questions. Does it matter whether Italy is run by a man investigated by magistrates for money-laundering and accused by prosecutors of being a perjurer, a falsifier of company accounts and a briber of judges, among other things? Mr Berlusconi evidently thinks it does, as he brought a lawsuit against us for defamation following that 2001 article: he must think these accusations are damaging to his reputation, and (since he continues to pursue the case) that the courts are suitable for protecting that even if he wants immunity from other cases. Our modest case, though, is immaterial compared with the wider issues.

Those wider issues begin with Mr Berlusconi's efforts to put himself beyond the reach of the law, and thus to evade both scrutiny and punishment. They extend to the series of attacks Mr Berlusconi's government has conducted against the judiciary, including threats of criminal charges against judges and prosecutors, and most recently the prosecutors who are conducting the SME case. Moreover, when our first article was published in 2001 many of the cases involving him were in their early stages. Since then, in one of the cases, concerning the purchase of Mondadori, a publishing group, his close friend and lawyer, Cesare Previti, has been found guilty of bribing judges and sentenced to 11 years in prison. (He is certain to appeal.) Since the verdict finds him guilty of giving these bribes for the direct benefit of Mr Berlusconi, it seems to *The Economist* that the prime minister needs to explain, to the public, what was (or was not) going on. Instead, he has managed to use the statute of limitations to avoid trial.

This is more than just a matter of political pride, arrogance or evasion. The SME case from which the prime minister has now obtained immunity while in office has opened a window on to Mr Berlusconi's business techniques. The case involved a successful effort by Mr Berlusconi to block the sale in 1985 of a state-owned food conglomerate, SME, to another Italian businessman, Carlo De Benedetti, a sale for which a contract had already been drawn up and signed. Beyond the accusations about what was done, perhaps the most noteworthy point about SME is that neither Mr Berlusconi nor his companies benefited directly from blocking the sale. They did not buy the firm instead, nor have they done so since. Yet they went to remarkable lengths to prevent Mr De Benedetti from buying it.

Why? On Mr Berlusconi's own admission, it was because he was asked to by the then prime minister, Bettino Craxi. Was this on ideological grounds? No: the late Craxi was head of the Socialist Party, and as a self-proclaimed free-marketeer Mr Berlusconi is supposedly in favour of privatisation. The real reason is that Craxi had issued a decree that made it possible for Mr Berlusconi's television companies to build the national networks that have now given them a near monopoly on commercial broadcasting. Another case, which ended in 2000, found that in 1991-92 Mr Berlusconi's companies had made illegal donations to bank accounts under Craxi's control totalling 23 billion lire (then $18.5m). In other words, for Mr Berlusconi politics has been a means to his business success.

And it continues to be. Mr Berlusconi's government has brought in a new communications bill which would ensure that the state television network is privatised in such a way as not to challenge his own private TV business and will permit him to extend his newspaper empire. This is not a matter of a rich businessman now applying his talents to reforming Italy and giving it a greater voice in the world, though no doubt Mr Berlusconi is sincere when he says he would like to do those things. It is a matter of a rich businessman using his political power to foster his businesses, both by defeating judicial investigations against him and by enacting new laws and regulations in his own interest. *The Economist* is thus concerned about Mr Berlusconi both as an outrage against the Italian people and their judicial system, and as Europe's most extreme case of the abuse by a capitalist of the democracy within which he lives and operates. Far from being, as he claims, the man who is creating a new Italy, he is a prime representative, and perpetuator, of the worst of old Italy. Ironic, really.

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The Democrats and Iraq

A dead end for the Democrats

Jul 31st 2003
From The Economist print edition

George Bush's opponents are attacking him from the wrong side

Reuters

REMEMBER those days when American foreign policy was a bipartisan affair—and most Democrats could be counted on to line up behind George Bush over Iraq? That was another age. The new frontrunner for the party's presidential nomination is Howard Dean, a maverick former governor of Vermont whose main attraction to the party faithful is his undiluted opposition to the Iraq war. Most of his establishment rivals have followed him down this path, drawn on by the president's declining popularity. Dick Gephardt rails against Mr Bush's "utter disregard for diplomacy". John Kerry, another supporter of the war in Congress, is also now throwing everything he can at the president.

Like Tony Blair, Mr Bush is under fire for supposedly sexing up the claims about weapons of mass destruction in Iraq. The Democrats' favourite stick to beat Mr Bush is the now famous 16 words in his state-of-the-union address about Saddam Hussein trying to buy uranium from Niger—something American intelligence says was untrue. Last weekend, Senator Bob Graham, another presidential candidate, talked about impeachment. Only Joe Lieberman has defended the war stoutly; coincidentally or not, his campaign is in the dumps.

Our sympathies are with Mr Lieberman—and not just because this newspaper supported the war. The Democrats' attacks on Mr Bush seem misguided, both in principle and tactically. And it so happens that, if they gave the matter any thought, they would find they had much better grounds than these for criticising Mr Bush.

Focusing on the 16 words seems particularly foolish. Here is what Mr Bush actually said: "The British government has learned that Saddam Hussein recently sought significant quantities of uranium from Africa." Well, the British stand by that judgment. If the CIA thought the British were wrong, it was a mistake for the White House to include their claim in the state-of-the-union speech (and the White House has admitted as much). But it hardly seems an impeachable lie—or any kind of lie. Just as Mr Blair must be happy that his persecutors made so much of the "45-minute claim" about Iraqi preparedness, Mr Bush must be relieved that the Democrats are running TV-ads about Niger: these narrow charges distract attention from the broader criticism to which both governments might otherwise be vulnerable.

There is evidence, for instance, that the White House was extremely selective in the intelligence that it cited about WMD, and even more so in its claims about the links between Saddam and al-Qaeda, an area the Democrats have largely ignored. Yet, even here, the Democrats would be wise to tread carefully, for three reasons.

First, America had several excellent motives for removing Saddam Hussein—and WMD was only one of them. Even with American troops dying and no WMD found, most Americans think that toppling Saddam was a success. Second, most people, including the intelligence agencies of European governments, believed at the time that those weapons existed. Third, it is still likely that evidence of WMD programmes will be found. Due to Mr Bush's poor decision to let the searching be done by American inspectors (something the Democrats again could have made more noise about), many of America's allies will regard any such discoveries as suspect. Most Americans will trust them.

Look to the future, not the past

With the American people already favouring the Republicans by wide margins on issues such as homeland security and national security, the Democrats' grandstanding could rebound horrifically at the polls next year (see article). But there is more at stake than just party politics. By concentrating on the causes of war rather than its aftermath, the Democrats are doing the rest of the world a disservice.

America's attempt to rebuild Iraq requires more troops and money than Mr Bush (or his party) seems willing to send there. It also requires the United Nations to play a stronger role—something conservative Republicans wrongly dislike. Mr Kerry, to be fair, has begun to make this case. With the Democratic rank and file screaming for the troops to be brought home, greater involvement in Iraq would be a bold cause for any Democratic presidential candidate to embrace. It is the right policy, nonetheless—and if Democrats hope to be taken seriously they ought to be pressing for it.

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Cuba

The museum of communism

Jul 31st 2003
From The Economist print edition

An ambiguous anniversary for a bankrupt revolution

AP

Get article background

FIFTY years ago last weekend, Fidel Castro led a small group of followers on a near-suicidal raid against an army barracks, the precursor of Cuba's 1959 revolution. Fifty years on, Mr Castro is still there, bearing an increasing resemblance to a Caribbean King Lear. Having outlived many of his enemies, he is busy finding more: his anniversary speech was mainly an angry rant against the European Union. Maybe that was because he has little left to celebrate, except survival.

In April, in its harshest crackdown on dissent in decades, his regime imposed long jail terms on 75 opponents, most of them independent journalists, librarians or democracy activists. Mr Castro justified this as a necessary defence against “regime change” promoted by an American administration he sees as the most aggressive towards Cuba of any since the 1960s. Outsiders (such as the EU, which withdrew its aid and curbed political ties) believe the crackdown's real purpose was to silence a small but growing opposition before economic problems amplify the grumbles of discontent.

The problems do, indeed, go deep. Many poorer Cubans got some benefit from the radical egalitarianism of Mr Castro's revolution, especially from its achievements in health and education. The infant mortality rate is the lowest in Latin America, and similar to that in the United States. Yet such gains came at a heavy cost, in lost human freedom and in Soviet subsidies. When the latter disappeared, Mr Castro opted to preserve his regime at the price of its principles. Ten years ago last weekend—a date which will be seen as the beginning of the end of the revolution—he legalised the use of his arch-enemy's currency, the American dollar. He had earlier invited foreign investors to Cuba to develop a mass tourist industry.

Ironically, the only things that now stand between Mr Castro's revolution and mass poverty are remittances from the 1.2m Cubans who live in the United States, and investors and tourists from the EU, whose governments he now abhors. They cannot mask the strains on the vaunted health and education services. But they have weakened the regime's control, exposed the bankruptcy of the communist economy, and introduced new inequalities. In Cuba now, a waitress in a tourist hotel or a prostitute earns more in a day than a surgeon or teacher gets in a month. The dollar shops overflow with goods, while in the peso economy of subsidies and rationing, shelves are often bare (see article). To have a family in Miami is more useful than to have a Communist Party card.

Given this demonstration of the superiority of market economics, what keeps Mr Castro in power, 14 years after the fall of the Berlin Wall? Repression, and the fact that Cuba is an island from which escape is hard, are part of it. But so too are Cubans' residual respect for their leader, their fear of the future,

and the United States's futile trade embargo. The embargo turns the old autocrat into the defender of Cuban nationalism, and gives him an excuse for his system's economic failures.

His successful defiance of the trade embargo and the revolution's past social achievements still give Mr Castro a certain aura among people such as members of the European Parliament, Hollywood film directors and Latin American students. But like the 1950s American cars and decaying Spanish-colonial tenements, Mr Castro has become part of the island's time warp. Repression apart, his revolution has come to resemble a Potemkin village of stage scenery. Behind the picturesquely crumbling façades, the dollar is already in charge.

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American corporate reform

Sox it to them

Jul 31st 2003
From The Economist print edition

The unfinished agenda a year after the Sarbanes-Oxley act

A YEAR is a long time in business. This week marks the first anniversary of the Sarbanes-Oxley corporate-reform act. As he was signing it into law, George Bush hailed the measure (which many Republicans and business lobbyists had resisted) as the biggest improvement in American business rules since the 1930s. Yet 12 months on, with share prices and the economy picking up, pressure for change has faded. Has enough been done to check American corporate malfeasance?

A first answer is that prosecutors, at least, have more work ahead. By coincidence, this week also saw the payment of fines totalling $308m by Citigroup and J.P. Morgan Chase, two of America's biggest banks, to settle charges that they had helped to disguise the financial plight of Enron, the Texan energy-trader whose bankruptcy in December 2001 triggered the debate on corporate reform (see article). The fall-out from Enron, and the later bankruptcy of WorldCom, had already claimed other big scalps, notably the demise of Arthur Andersen, America's fifth-biggest audit firm. Yet charges have not been brought against the top bosses at Enron or WorldCom. Prosecutors should get a move on.

As for the broader impact of Sarbanes-Oxley, it is still too early to draw firm conclusions. Tougher regulation of auditors through the new accounting oversight board under the chairmanship of William McDonough, a former head of the New York Fed, should help to improve auditing. Getting chief executives and financial officers to sign up to the accuracy of all financial statements is serving to concentrate minds. Indeed, bosses and directors are in general being far more careful to discharge their obligations to shareholders more fully and more openly. Of course, the sight of Sam Waksal, former chief executive of ImClone, being hauled to jail for insider trading may have as much to do with this as any new law.

Wall Street still has more to do to regain investors' confidence. The settlement of charges first brought by Eliot Spitzer, attorney-general of New York, of conflicts of interest between equity analysts and investment bankers has left reputations besmirched. Probes continue into the dubious marketing and allocation of initial public offerings, the selling of mutual funds and the practice of tying cheap loans to more lucrative investment-banking business. New corporate-governance rules first proposed a year ago by the New York Stock Exchange (NYSE) and the NASDAQ stockmarket still await approval by the Securities and Exchange Commission, which has itself acquired a new boss in William Donaldson, a former NYSE chairman. Mr Donaldson and Mr McDonough, newcomers both, have yet to make much of a mark on their agencies, but their reputation and broader experience in the markets should be reassuring.

If faith in American corporate governance has been partly restored by Sarbanes-Oxley and the subsequent work of regulators, what about the converse concern: is American business now too hogtied by red tape to function effectively? There are, in truth, a few worrying signs: a growing number of firms opting to remain or switch to being private rather than public, a widespread aversion to risk-taking among chief executives, a box-ticking approach by auditors and bosses alike. Yet these are mostly natural reactions to the bursting of the stockmarket bubble and to the adverse economic background. In these difficult times, caution and attention to detail are praiseworthy rather than the reverse.

Action and reaction

The big test will come when the next boom arrives. By tightening up on audit and the giving of financial advice, Sarbanes-Oxley may help to ward off some future excesses. But the strongest safeguard will come from investors who suffered so badly from the bursting of the bubble. As long as they remember their experience, they should avoid repeating it. The best thing that politicians and regulators—and, indeed, the press—can do is to keep reminding them.

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The Holocaust and insurance

Too late, too slow, too expensive

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The international commission on Holocaust insurance must work better and faster

AP

WRANGLING over Holocaust reparations is now in its 58th year. It started with the German government's acceptance both of moral responsibility for the crimes of the Nazis and of the case for compensation. Germany has paid some $60 billion. In 1997 the Swiss government set up a SFr300m ($210m) Holocaust compensation fund. In December 1999, after tortuous negotiations, 65 German companies and the German government agreed to compensate survivors of Nazi labour camps to the tune of $5.2 billion.

Yet more straightforward commercial losses remain uncompensated. For over 50 years banks and insurance companies failed to disclose all they knew about deposits and insurance policies linked to the Holocaust. Only in 2000 were the Swiss banks pushed, after much resistance, into making a $1¼ billion court settlement in America to compensate Holocaust victims for their dormant accounts. But the issue of unpaid life-insurance policies, a favourite investment of European Jews before the second world war, remains unresolved.

After being harassed by American lawyers, European insurers agreed to become founder members of the International Commission for Holocaust Era Insurance Claims (ICHEIC), set up in 1998 under Lawrence Eagleburger, a former American secretary of state. Allianz, AXA, Generali, Zurich and Winterthur all joined forces with American and European regulators, Jewish organisations and Israel to settle life-insurance policies that had been written between 1920 and 1945. European insurers appeared to conclude that leaving claims unpaid would seriously hamper their business interests in America and elsewhere.

Five years on, however, ICHEIC has a strikingly poor record (see article). It has settled only a tiny number of claims, and in doing so has apparently spent more on its own pay, administration and travel than it has paid in compensation—though its disclosure is so poor that it is impossible for outsiders to be sure of the numbers. Staff turnover is high. The London office of ICHEIC, which administers claims, is about to get yet another new boss.

Of course, ICHEIC has a difficult job. Most of the 90,000 inquiries and claims it has received come from people who have no documents to back them up and often do not even know which company wrote the policies and under what terms. National boundaries have shifted. Insurance companies have been expropriated or have ceased to exist. Today's valuation of the policies is decided by a complex calculation that is contested by some claimants. On top of all that, the commission also has to decide who is the rightful heir. And when compensation is offered, any claimant can reject it and the case has to be examined anew.

By now some claimants are so disillusioned they are resorting to lawsuits again. In April another eight were filed against Generali, bringing the number it faces over this to 11; three are class-action suits. The commission's task was to “establish a just process that will expeditiously address the issue of unpaid insurance policies to victims of the Holocaust.” The deadline for all Holocaust insurance claims is September 30th. If ICHEIC fails to improve its performance, and quickly, by demonstrating greater independence, acting more openly and paying claims faster, then those who have not yet filed a claim may choose to go directly to law. That would hardly help insurers or claimants to resolve this issue speedily.

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Letters

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Was war warranted?

SIR – Your continued defence of the war is grounded on the assertion that Saddam Hussein's Iraq was "dangerous" ("The case for war—revisited", July 19th). Dangerous to whom? In light of the conviction of several former weapons inspectors that Iraq was substantially disarmed after 1998, the burden of proof has always been on those advocating intervention.

Yet *The Economist* has always given the pro-war arguments every benefit of the doubt and hawkish assumptions far more credibility than the evidence warrants, and in so doing has lent support to governments that have probably swindled the public and started an unnecessary war. Lacking in every hawkish argument has been the common-sense understanding that the chance of massive and overwhelming retaliation would deter any third-rate state from an attack.

You say that if George Bush and Tony Blair lied "it would be a huge scandal and would destroy their governments' credibility for future interventions overseas." What is Vice-President Dick Cheney's claim that Iraq had "reconstituted nuclear weapons" if not an outright lie? What of Mr Bush's claim that there was "no doubt" of the existence of the weapons that now cannot be found? Finally, considering the American public's confusion over the real relationship between Iraq and al-Qaeda, what else other than lies can you call Mr Bush's repeated claims about Iraq's "harbouring" members of al-Qaeda?

Maybe western intelligence agencies are so amazingly incompetent that they cannot provide correct information properly to inform a policy of pre-emption, in which case such wars are even more dangerous and wrong. Or perhaps the governments of Britain and the United States made a host of false statements without any suitable explanation for these errors, in which case a responsible democratic society must assume that the governments have lied and in so doing have abused their powers.

Daniel Larison
Albuquerque, New Mexico

SIR – If Messrs Bush and Blair lied or knowingly exaggerated the threat posed by Saddam's Iraq in order to get support for a war effort, then they have committed crimes that will make Watergate and Whitewater seem like adolescent pranks.

Allan Scardina
Houston

SIR – Saddam's genocidal policies and his gross violations of human rights are often forgotten as legitimate reasons for toppling his odious regime. The remains of thousands of deceased Iraqis found in at least 62 mass graves in southern Iraq and other manifestations of terror in Iraq prove that Saddam was a grave threat to world peace and universal human rights. It is not absolutely necessary to locate the weapons of mass destruction (WMD) and prove any connection between his regime and global terrorism.

Lee Rice
Richmond, Virginia

SIR – Anne Frank, in her famous diary, said that: "The British are not to offer their excuses; they and

other countries, especially those bordering on Germany too, were sleeping during the years Germany was rearming itself. Britain and the rest of the world have discovered that burying your head in the sand does not work, and now each of them, is having to pay a heavy price for ostrich policy."

To those who were against the war in Iraq I say that history will prove them wrong, and that Britain and the United States did a great service to humanity by liquidating Saddam.

Brij Agarwal
Bhopal, India

SIR – The question is not whether Saddam is a "Thoroughly Bad Sort" who deserved to be removed, or whether the Iraqi people deserved to be rid of him. That is as debatable as whether the earth is flat.

In the absence of a nuclear-arms programme, chemical or biological weapons, or any credible links between the Iraqi regime and al-Qaeda, the question is what American national interest was at stake that justified sacrificing the lives of American and Iraqi soldiers and civilians, straining ties with America's oldest allies and riding roughshod over international institutions? These are the questions your leader does not address, and why it is pure "fudge".

Michael Erwin
Paris

SIR – Regardless of whether it was right that Saddam was deposed from Iraq, the main question of how the British government presented its justification for war should be thoroughly examined. If our country was led to war under false claims about WMD, then the government has lied to Parliament and ultimately the citizens of this country. When future action is necessary, it will be more difficult to gain the trust of the people. If the real reason for wanting to go to war was to depose a "bad" man, then it should have been presented as such.

Mark Darlington
London

SIR – The fundamental flaw in your argument is the inherent inconsistency regarding the United Nations. Your case for having gone to war revolves around the argument that Saddam was in violation of many UN resolutions, most notably 1441. This fact could not be disputed by even the most doveish anti-war protester. But, the Bush administration did not go back to the UN for authority to go to war.

One might argue that the UN Security Council is flawed, that the French no longer deserve a veto, that the Russians were going to vote against it no matter what, etc. But the UN has its rules, and if you are going to rely on 1441 et al as the reason for war, you must also use the UN's processes and procedures for doing so. If *The Economist* and the Bush administration did not like the UN's rules, they should not have counted on them as justification for their action.

David Schamis
New York

SIR – The pragmatic view: on balance, would the world have been a better place without the war? None of its proponents has shown any solid evidence that Iraq under Saddam would have been able to mount any substantial military or terrorist attack on any other country. On the other hand the war cost the American taxpayer about $75 billion (and counting), and the money could have been spent a whole lot better at home.

The legalistic view: is any nation entitled to attack another pre-emptively? That course of action always used to be called "aggression" unless the attacker faced a clear, serious, and imminent threat that could only be averted by pre-emptive action. That was not the case.

The realpolitik view: if it is right for a rich, powerful, democratic nation to conquer a poor, weak, nasty one and force it to become democratic, why start with Iraq? Heroin and cocaine are weapons of mass destruction that have been causing horrendous casualties in America for decades. The countries that produce them are not all perfect democracies either, so perhaps one of them should have been first on the list.

There is an aspect of credibility. The world now knows that America attacks only those countries that it can be fairly sure of defeating within about a month and with minimal casualties. So the North Koreans, who ought to be next, know that they have nothing to fear.

J.S. Walker
Largo, Florida

Weapons inspections

SIR - Your article “The Battles Back Home” (Global Agenda, Economist.com, July 22nd) states that in 1998 “Saddam ejected the (UN) weapons inspectors...” That is inaccurate. In fact, after chief weapons inspector Richard Butler spoke with (UN secretary-general) Kofi Annan about Saddam Hussein's lack of promised co-operation, the UN withdrew the inspectors. The difference is significant.

Robert Whittenbarger
Charleston, Illinois

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1. The SME affair

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This opening section examines the trial from which Silvio Berlusconi, Italy's prime minister, has recently gained immunity while in office, thanks to a new law passed by his government. In section 2 we publish Mr Berlusconi's own account, made on May 5th 2003 in court but not under oath. Since the courts can no longer judge him, we invite readers to decide whether his version fits the facts.

The charges

In your one remaining trial, you are accused of bribing judges. One of your co-defendants is Cesare Previti, a close friend, a senator for your Forza Italia party, and defence minister in your first government in 1994. The judges who allegedly took bribes are Filippo Verde and Renato Squillante, both of whom formerly worked in the courts in Rome.

While investigating the aborted 1985 sale of SME, a state-owned food conglomerate, to Carlo De Benedetti, a wealthy Italian businessman, magistrates came across a payment made by All Iberian, a secret offshore part of Fininvest, the company at the apex of your corporate hierarchy.

In March 1991, All Iberian had paid $434,404 into Mr Previti's Mercier bank account at Darier Henscht & Cie in Geneva, through two transit bank accounts called Polifemo and Ferrido. On the next day, the same amount was transferred from Mr Previti's account to an account held in the name of Rowena Finance, a Panamanian company, with bank accounts in Switzerland. The beneficial owner of Rowena Finance was Mr Squillante.

In late 1999, you and Mr Previti were charged with bribing Mr Squillante, and Mr Verde who, with two fellow judges in Rome's court of first instance, gave a controversial ruling which stopped Mr De Benedetti buying SME.

On May 30th 2003, prosecutors requested 11 years in jail for each of Mr Previti and Attilio Pacifico, 11 years and four months for Mr Squillante, and four years and eight months for Mr Verde. No request was made for your sentencing, because on May 16th the court had ruled that your trial should continue separately, due to your heavy commitments as prime minister and prospective president of the European Union.

You are in a unique position in this trial. As prime minister, you are a civil co-plaintiff; as Silvio Berlusconi, you are a defendant. On June 6th the state's advocate, Domenico Salvemini, representing you as prime minister, told the judges that €1m ($1.17m) of damages should be awarded against you (as Silvio Berlusconi) and other defendants. At the close of his speech, Mr Salvemini said that the SME affair had done huge damage to the credibility of justice. "Even so," he added, "my requests, such as they are, are not enormous because they result from agreements and contact I have had with…the prime minister's office."

On June 18th, the Italian parliament approved a bill to grant immunity from criminal trials to the prime minister. As a result, the SME trial has been suspended until you are no longer prime minister. But the immunity law is being challenged in the constitutional court.

The 1984 TV decree

By 1985, when the SME sale to Mr De Benedetti was stopped, your main business was commercial television, in which you had secured a near monopoly.

Until the 1970s, only RAI, Italy's state broadcaster, was permitted by law to transmit nationally; indeed it was the only national broadcaster. During the 1970s private TV channels sprang up. The constitutional court clarified the position in 1980 when it ruled that private television stations were allowed to broadcast, but only on a local basis.

You found a way round this ruling. You bought programmes, especially American films and soaps, and offered them at attractive prices to small, regional television stations. You collected the revenue from pre-recorded advertising slots that you inserted. Each station in the embryonic network agreed to broadcast the same programmes at the same time. In this way, you secured, in effect, a national audience.

To skirt round the law and broadcast nationwide, you needed help from Bettino Craxi, who became leader of the Socialist Party in 1976 and prime minister in 1983. On October 16th 1984, magistrates in three Italian cities shut down your television stations (and others) for allegedly broadcasting illegally.

Within four days, Mr Craxi signed a decree that allowed your stations (and others) to stay on air. After parliamentary tussles, this decree became law in early 1985.

In 1994 Mr Craxi fled to Tunisia and died there in 2000 as a disgraced fugitive from Italian justice. He had been sentenced in absentia to prison for corruption.

Background to SME

Until the mid-1980s, the state controlled much of the Italian economy through three holding companies, the largest of which was Istituto per la Ricostruzione Industriale (IRI). IRI's sales were massive, but it made losses and was deep in debt.

Romano Prodi, at the time an ebullient and respected industrial economist from Bologna, became its chairman in November 1982. A lapsed Christian Democrat, he was ahead of his time: he believed in market forces and had a penchant for pragmatic privatisation. Politicians had run IRI to buy votes; Mr Prodi's aim was to sell those parts of IRI that the private sector could operate better.

A prime candidate was a business that had become a national joke. This was Societa Meridionale di Elettricita (SME), in which IRI had a 64.4% stake. Originally a quoted utility, its assets were taken over directly by the state in 1962. SME used the proceeds to create a new core business: a food empire. Over the next 20 years, SME became a dustbin for companies that should have gone bust, a conglomerate without strategic rationale. It was involved in food production (tomatoes through Cirio, edible oils through Bertolli and milk through De Rica), food distribution (GS Supermarkets and motorway catering through Autogrill), and ice cream and frozen foods (through Italgel).

SME also had a management contract to run a sister group called Sidalm, which owned companies making biscuits, crackers and cakes. Sidalm was virtually a basket-case—it lost 47 billion lire (then around $27m) in 1984 and needed a capital injection of 30 billion lire to stop it going bust.

SME had capable managers, such as Giuseppe Rasero, recruited from Unilever, an Anglo-Dutch food giant, in the 1970s as chief executive of SME's food-distribution business. He was appointed chief executive of SME itself in 1982. However, a combination of politicians, bureaucrats and joint ventures prevented the real streamlining that the conglomerate needed.

Even so, these managers made some impact on the group. SME reported attributable post-tax profits of 65 billion lire on sales of 2.5 trillion lire in 1984—its first such profit in years. Its audited consolidated accounts for 1984 showed net debts of 247 billion lire and net assets of 432 billion lire. The group had about 15,000 employees.

The Italian food industry was highly fragmented and sold mainly in its domestic market. Elsewhere in Europe, the industry was consolidating aggressively; pan-European groups were emerging, such as BSN Gervais-Danone (now Danone), a French group. Danone was nowhere near as big as Unilever but was far bigger and stronger than SME.

Privatising Prodi

From Mr Prodi's perspective, greater involvement of the private sector was essential, perhaps through a partner. Terms could not be agreed with the most obvious candidate—the Fossati family, the joint-venture partner in three of SME's businesses (including Alivar, a quoted company, which owned 60% of Autogrill). Through an asset swap with the Fossati family in early 1985, SME eliminated one of the obstacles to rationalising the group and increased its shareholding in Alivar from 50% to 92%.

After this, SME proposed to merge Alivar, 8% of which was still listed, into itself. SME therefore had to be valued. In early 1985, a leading valuation expert, Professor Roberto Poli, valued IRI's 64.4% stake at 497 billion lire, and therefore the whole of SME at 772 billion lire (then $389m).

Mr Prodi's preferred solution was a complete sale of SME, together with its near-bankrupt sister group, Sidalm. But there were three problems. First, for political reasons, the buyer would have to be Italian. Second, potential buyers would want only to cherrypick the good parts of the business, such as Italgel. Third, as of January 1985, no Italian food group was in a position to buy the conglomerate. Buitoni, a pasta and confectionery group, was almost bust; Barilla, a pasta and biscuit maker, was controlled by a Swiss family that owned an arms manufacturer; and Ferrero, a confectionery group then based in Belgium, had never made an acquisition in its near 40-year existence. Sounded out, none of these was interested in the challenge of the whole SME group.

You made known your interest in food companies as early as February 1985. On April 3rd 1985 you met Mr Rasero, who told you that IRI was only prepared to sell the whole of its stake in SME, and that the stake was worth about 500 billion lire. According to Mr Rasero, you replied that the price was beyond your companies.

Enter De Benedetti

Meanwhile, Mr De Benedetti, known as a maverick businessman, was looking to diversify. His group, Compagnie Industriali Riunite (CIR), controlled Olivetti, a computer business that CIR had gained control of in the late 1970s when it was in deep financial trouble. CIR had turned round Olivetti by ruthless cost-cutting and by spotting that the future of computing was in PCs not mainframes. Mr De Benedetti had also brought in AT&T, a huge American phone company, as a significant shareholder in Olivetti in 1983, to the chagrin of Mr Craxi's Socialist Party.

You already had a large stake in *il Giornale*, a daily paper, and like you, Mr De Benedetti wanted a newspaper. In October 1984 he failed to win control of *Corriere della Sera*, one of two national newspapers, control of which went instead to the late Gianni Agnelli, with the support of Mr Craxi, by then prime minister. Not to be deterred, Mr De Benedetti soon had a small shareholding in Mondadori, the joint owner of *La Repubblica*, the other national newspaper, with L'Espresso, the publisher of a news magazine of that name.

As CIR was dependent on Olivetti, it needed a business that would counter-balance the risk of an increasingly competitive PC market. Such a business needed compensating characteristics: low risk, mature markets and strong cashflow. The food industry fitted the bill.

In a typically opportunistic move, Mr De Benedetti snatched Buitoni from under the nose of Danone. In February 1985, he offered the Buitoni family 10% more than the French group for its controlling stake, and clinched the deal in one evening. One thing soon became clear to CIR: Buitoni and SME would be good fits. SME sold mainly to the domestic market; Buitoni more internationally.

Mr De Benedetti seized the moment. In mid-April he contacted Mr Prodi to ask if CIR (through Buitoni) could buy SME. He was initially rebuffed, but eventually hammered out a deal with Mr Prodi (and both sides' professional advisers) during two marathon meetings.

Mr Prodi for IRI and Mr De Benedetti for Buitoni signed an agreement on April 29th 1985. Buitoni agreed to pay 497 billion lire for IRI's 64.4% stake in SME. This represented 1,107 lire per SME share, compared with the market price of 1,275 lire on April 30th. The market price was extremely frothy—it had risen by nearly 70% since January 1st. But Buitoni's offer represented a 38% premium to the average price over the preceding 12 months.

In return for concessions made by Mr De Benedetti during negotiations, the price was payable by instalments. Buitoni also agreed to buy, for one lira, the deeply troubled Sidalm, into which it would inject 30 billion lire. The only undertaking given by Buitoni was to keep SME's head office in Naples. (On

May 26th 1985, Buitoni also promised to retain SME for 15 years.)

The agreement stipulated that the sale was subject to approval by IRI's board—the details of the negotiations had hitherto been kept to a closed circle in an attempt to stop insider trading. (IRI's board approved the deal unanimously on May 7th 1985.)

Food for thought

Mr Prodi and Mr De Benedetti announced the agreement in a blaze of publicity at a joint press conference on April 30th 1985. The next day, *Il Sole-24 Ore*, Italy's financial paper of record, splashed the story on its front page and ran several stories inside. "20 hours round a table, then an agreement was concluded," said one headline.

Clelio Darida, minister for state holdings, whom Mr Prodi had kept fully informed of IRI's talks with Buitoni, told *Il Sole-24 Ore* that he was in favour of the deal. Renato Altissimo, minister for industry, stated that "the birth of the large Italian food group" gave him great satisfaction.

Mr Prodi soon submitted the agreement to Mr Darida. IRI appointed Professor Luigi Guatri, another eminent valuation expert, to value its stake in SME. When he reported on May 4th, he concurred with Mr Poli's valuation. There was no such thing as a precise value, his report said, but the price of 497 billion lire offered by Mr De Benedetti was towards the upper end of the range.

At a cabinet meeting on May 2nd, Mr Craxi asked Mr Darida to check that the price was fair and report on the sale. On May 9th, he wrote to Mr Darida claiming that IRI had acted in a "unilateral and prejudicial way" by not seeking government approval before April 29th. Mr Craxi wanted to know if all possible offers had been looked at. On the same day, Mr Prodi asked Mr De Benedetti to put the conclusion of the deal back to May 28th from its original deadline of May 10th.

On May 23rd *La Stampa*, a daily, published an interview with you about SME. You were quoted as saying: "Now people are trying to promote the image of SME as a golden group that Mr De Benedetti would buy at an advantageous price. In reality, the turnaround of SME has scarcely started, and [Mr De Benedetti] will have to free [the group] from the weight of so many years of political management…"

The same day, out of the blue, a little-known lawyer in Rome, Italo Scalera—an old schoolfriend of Mr Previti—made IRI an offer of 550 billion lire for SME and Sidalm. It was on behalf of unnamed clients, whose identities, said Mr Scalera, would be revealed at the conclusion of the deal. Mr Darida asked Mr Prodi to look into the offer.

On May 28th yet another offer was received. This time it was from Industrie Alimentari Riunite (IAR), a consortium between your Fininvest, Barilla, run by Pietro Barilla, and the Ferrero group, run by Michele Ferrero. IAR offered 600 billion lire (with some payment by instalments) for IRI's stake in SME and Sidalm. As you and the other two men had previously expressed no interest in the whole of SME, the bid was clearly a tactic to stymie Buitoni's purchase of SME. A higher offer was also received from a company called Compagnia Finanziaria Mercato Alimentari (Co.Fi.Ma), run by Giovanni Fimiani, a businessman.

The privatisation of SME soon became a farce. On June 4th, a senior banker at Swiss Bank Corporation in London, where there were many SME shareholders, fired off an angry telex to the chairman of Consob, Italy's stock exchange regulator. "It seems strange", she wrote, " …that a deal agreed, and signed, between those parties involved should subsequently be called into question in such a public fashion. The apparent chaos…is doing…immeasurable damage to the reputation of Italian financial markets…"

On June 9th, *L'Espresso* published an interview with you. You said that you had not phoned Mr Craxi to ask him to intervene: "On the contrary, the fact of being a friend of prime minister Craxi constituted an obstacle."

The government said that all offers for SME should be considered, and, on June 15th 1985, Mr Darida issued a decree to stop the sale.

Details, details

In all this manoeuvring, one small, but highly significant, detail had been overlooked. For years, IRI, as requested in ministerial circulars, had been seeking government approval to sell companies. This was not necessary, however, under the law. “Ministerial circulars which give authorisation—accepted in the past, out of weakness and a desire for a quiet life, or ignorance on the part of IRI itself—are illegitimate because they assume a power without legislative underpinning,” wrote Sabino Cassese, one of Italy’s leading experts on administrative law, in a newspaper article on May 22nd 1985.

Nonetheless Mr Prodi submitted the deal to the government, perhaps for one of the reasons suggested by Mr Cassese. Mr De Benedetti believes that Mr Prodi knew in April 1985 that he did not need government approval. Buitoni duly sued IRI for fulfilment of the agreement signed on April 29th 1985.

In a case brought by Mr Fimiani’s Co.Fi.Ma, the highest level of the final appeals court, in March 1986, confirmed Mr Cassese’s view of the law. No government approval was necessary for IRI to sell SME, said the final appeals court, as IRI was subject to ordinary company law.

This was three months before Buitoni lost its case at the court of first instance in June 1986. In this court, three judges, presided over by Mr Verde, now one of the defendants in the SME case, ruled that Buitoni’s agreement with IRI was not enforceable because it was subject to government approval, and that had not been given.

Buitoni also lost at the appeals court in February 1987. This court criticised Mr Verde and his two fellow judges for their interpretation of the law. However, in a convoluted judgment, it ruled that even though the law did not provide for government approval, both Buitoni and IRI had expressed a wish to secure government sanction for the deal. They had done this, said the appeals court, through a two-line clause in the agreement of April 29th 1985, which was therefore not binding. In July 1988, in an even more convoluted judgment, the final appeals court also ruled that the agreement was not enforceable.

In its pleadings from December 1987, in a case started by IAR, IRI itself had declared that “it was completely free…to decide if, how, when, with whom and under what conditions to execute a contract.”

Given that no government approval was needed, it is not irrelevant to speculate about how a person who had been instructed to block the sale of SME would have achieved his objective. From the perspective of someone who was familiar with the final-appeals-court ruling in March 1986 (ie, that IRI was subject to ordinary company law), Buitoni and IRI had reached a valid agreement on April 29th 1985 that was not subject to government approval.

From this person’s perspective, the agreement between IRI and Buitoni was therefore binding. So the only blocking tactic that such a person could have deployed successfully would have been interference in the course of justice when Buitoni first tried to enforce the agreement.

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2. Your spontaneous declarations (May 5th 2003)

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It is a defendant's right in a criminal trial in Italy to make "spontaneous declarations". Not made under oath, they can be made at any stage of a trial. In essence, they are an opportunity for a defendant to make a plea in mitigation. A defendant is not supposed to use them to make allegations not directly related to his case.

Your words below are from a translation of your spontaneous declarations on May 5th in the SME trial. We have edited your speech, but fairly, we believe. The transcript is available in both Italian and English. What follows are words you spoke, except where indicated by the use of square brackets. For the sake of clarity, we have juxtaposed your opening and closing remarks, and have moved the context of two of your remarks, as indicated by use of italics. We note where we omit sizeable passages of your speech by use of the symbol (.).

Your opening remarks

"…I have decided to change my attitude to this case. My earlier attitude was…[no] involvement on my part, because I was convinced…that my lawyers were perfectly capable of putting forward all the arguments [to] fully demonstrate how ludicrous the charge is…Some three weeks ago my lawyers…told me…that the court had rejected [their] application to call some witnesses who…are…indispensable…

…for the first time at last night's meeting with lawyers Ghedini and Pecorella – it may sound incredible, but the accusations seemed so illogical, so ludicrous, that I had never read the charges filed against me. I discovered… that the evidence against me was uncertain and fragmentary, and as I was well aware of my situation, I placed no importance on these proceedings. However, last night I discovered that it was actually alleged that I, or other partners, or jointly with other partners, had contacted one of the judges involved in these lawsuits filed by Buitoni, which Buitoni always lost, to the advantage of IRI. [From page 18-19 of the transcript].

Your closing remarks

I think the court needs to hear sworn evidence of the facts I have recounted today, and I believe that at this point, in view of the amount of public interest focusing on this trial, I need to be present when the witnesses are heard to exercise my right, the right of every citizen, to cross-examination. I believe that this can be arranged, despite…my heavy schedule…I am not only prime minister…but also, since May 1st, a member of the European troika that governs the Council of Europe; consequently, from now until the end of this year I will have to make 76 trips abroad…There will be my engagements as prime minister…

This does not mean that I won't be able to find some free…mornings…This will allow the prime minister and citizen Berlusconi to be present…and exercise the right…to cross-examine the witnesses whom I would urge the president of the judges to call…The judgment will…relate to the integrity and morality of the prime minister…my conduct was scrupulously honest, and I hope that what I have said will be borne out in this trial, because the person before the court today is not only the defendant Berlusconi, but also citizen Berlusconi, to whom the majority of the country has entrusted the responsibility and honour of governing the country. Thank you."

The aborted sale of SME to Buitoni

"I only wish to talk about facts, without giving opinions, or passing judgment…On 1st May 1985, while I was in Madrid…I [learned] that IRI had sold SME to Carlo De Benedetti's Buitoni…In particular there was

a very heated phone call from the late Pietro Barilla, who told me that…a fortnight earlier…, [he] was told that IRI did not intend to sell off [SME]…And he asked me, he begged me, in view of my friendship with the then prime minister, Bettino Craxi, to try and arrange an appointment…for him.

When I got back to Milan I spoke to the prime minister, who…gave the impression that he wasn't particularly interested in it…

(.)

A few days later the prime minister rang and asked me to meet him…in his offices in Piazza del Duomo, Milan, where I found a totally different person…He used very strong, sometimes colourful language, and began to recount what he had learned of the affair, not only from…Undersecretary Amato, but also from… members of the IRI board who belonged to his political party.

He began by describing as incredible, horrifying and scandalous the way in which the negotiations had been conducted, as he put it, and I remember his words well, 'behind closed doors', rather than on the open market…He said it was scandalous that…board members of IRI had not been informed of these negotiations, or even the intention to sell SME; he said it was scandalous that IRI had rebuffed leading figures in the Italian food industry, and he named Buitoni, who had also been mentioned by Pietro Barilla when he phoned me in Spain.

If I may go back in time…Bruno Buitoni…said that he was even willing to sell Buitoni…to IRI…He also told Barilla…that De Benedetti had decided to buy [Buitoni], because he had convinced him that he was now sure the purchase would go ahead…and...he quoted the exact expression; I think he said that he had SME 'in his pocket'. This was also reported to the prime minister, who described this behaviour as unacceptable. He also told me what…minister Altissimo…told him about an offer by the American multinational Heinz, which had asked to buy SME…[Mr Prodi] turned down the offer. On that occasion [Mr Prodi] said that the food holdings owned by SME were considered strategic to [Italy], and therefore unsaleable. [Mr Prodi] also estimated…the value of SME at 1,300-1,500 billion [lire], saying that SME was the casket, the safe in which the main historic Italian brands were kept…

(.)

He said Altissimo had told him about this discussion with [Mr Prodi]. He also said that the then chairman of the budget commission…had contacted Romano Prodi at the beginning of the year and received an identical negative answer about SME's intentions…[Craxi] consequently felt that this sort of behaviour was totally unacceptable, and that the sale, which he viewed as stripping of government assets in return for a gift, for undue enrichment of a private individual, could not take place in that way. He described in even stronger terms the agreed price…497 billion [lire]…

… "*It's impossible for a deal of this kind to be concluded in just two sessions at Mediobanca", he said he'd been informed that some IRI executives… were so offended that they walked out… leaving only [Mr Prodi], who then clinched the deal with De Benedetti.*" [from page 14 of the transcript].

….Craxi added that a universal rule…had been disregarded, in other words that a majority premium should have been added to the valuation because the majority interest in the company was being sold."

(.)

What you did and why you did it

What was Craxi's conclusion? He said, "This is a loss to the state, it's unacceptable asset-stripping… there's only one solution: for IRI to receive a much higher bid than the one contained in the contract with CIR [the holding company for Buitoni]. I know Barilla's trying to get together a syndicate of industrialists", he said, "…Darida…has…asked for…signature of the agreement to be postponed from 10th to 28th May. They agreed, so there's a very short time to submit to IRI a bid higher [than] the price agreed with CIR"…

He said: "…So I'd like you to get involved personally alongside Barilla; I know there are other businessmen interested". He mentioned…that Ferrero, as well as Barilla, as well as Buitoni, had come forward…"So…", he said "…I know that an accountant, a Mr. Locatelli of Milan, is working on the matter…

I'd like you to…get involved, perhaps by having Fininvest join the syndicate, so that a much higher bid than CIR's can be submitted by that date, 28th May".

I told him that…two senior executives of [IRI] (*you said CIR, but we assume you meant IRI*) had come to see me…when I asked [them] if IRI was planning to sell SME, they said it definitely wasn't…I told this story to the prime minister, but although at the time I had no direct interest in buying SME or any of the companies belonging to it, [Mr Craxi] still asked me in a very, very friendly but insistent way to co-operate; he asked me to contact [Pietro] Barilla immediately and to see, hear this accountant and to put my practical approach to work…

I eventually did, and I must say that it was no great sacrifice for me because I had some unfinished business with Mr. De Benedetti; he had holdings in the La Repubblica-Espresso group which kept attacking me – not just every other day, but practically every single day…

So I immediately got in touch with Locatelli. …In full agreement with [Mr]Barilla, I instructed a Rome lawyer [Mr Scalera] to submit a higher bid to IRI (I remember that the increase was around 50 billion [lire], and I think the actual bid was 550 billion [lire]), on behalf of persons to be named at a later stage…This bid was submitted on 23rd May…

(.)

We set up a meeting at Ferrero's head office in Turin or a nearby town; we all went there together and drafted a telex, which we sent to IRI the same evening. It was the last day, 28th May…I would say that this was the most important step in the process; I'd carried out the prime minister's instructions, a procedure which would have led to completion of the contract had been halted, and…much higher bids… [had been received] than the price specified in the preliminary agreement with CIR. So the entire deal came to a standstill.

Subsequent litigation and court rulings

The contract signed by Prodi and CIR wasn't completed, and other parties interested in the purchase came on the scene, including Mr Fimiani of a company whose name I don't remember. He has phoned me in the last few days, and I would ask my lawyers to file the letter and documents which Mr Fimiani has sent me as exhibits in these proceedings. His bid was 620 billion lire, so it was higher than ours.

(.)

There had been strong criticisms from the entire left wing, and there was also (as I was told in my meeting with prime minister Craxi) a rumour, supported by what Craxi called very precise circumstantial evidence, that bribes had been paid to…a faction of [the majority] party…Amato told me in no uncertain terms…that proof of this fact existed. This was the only possible explanation for such a huge gift to a private individual, leading to such a serious loss to the state…

De Benedetti then filed a series of lawsuits against IRI, attempting to enforce the document signed by Prodi. I believe that CIR was well aware that Prodi acted *ultra vires*, in other words he had no power to sign that agreement; in fact, I believe that Prodi said as much to De Benedetti as there is no other explanation why CIR later failed to take proceedings against Prodi…

In any event De Benedetti filed a series of lawsuits…Without my involvement…. the case against IAR [Industrie Alimentari Riunite] was dismissed, either in the final judgment or during the proceedings. De Benedetti appealed, and once again IAR was considered to be a party to the proceedings, but its application was rejected. De Benedetti appealed to the court of cassation [the final appeals court]…

(.)

…there were 15 judges involved in these lawsuits, who kept saying no to Buitoni…. so it seems very strange that it could be thought that one of these judges influenced the entire decision, which seems to me to be an impeccable decision that cannot be criticised on legal or objective grounds.

(.)

I was only involved once, in 1988, when, as the lawsuits that claimed from IRI, which had benefited from IAR's involvement in the proceedings, and was the only party which could have been benefited from it…it kept control of SME, retained ownership of it, and would not have been obliged to sell it to CIR…

This was established at first instance and by the high court at all levels of appeal; if anything, it was [Mr Prodi] whose position was protected against the possible claims… by CIR against him for contractual liability, thanks to the rulings of the court, which stated that [IRI's] commitment was merely a preliminary commitment and not a final agreement.

(.)

I believe that is everything: I think these are definite facts.

(.)

"

Our question

How would you reconcile your spontaneous declarations on May 5th 2003 with our factual recital of the aborted sale in 1985 by IRI of SME to Buitoni?

… Continued

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About sponsorship

America's troubled Catholics

LA story

Jul 31st 2003
From The Economist print edition

Corbis

If you want to understand the problems—and the potential—of the Catholic church in America, go to Los Angeles

Get article background

THE first sight of Our Lady of the Angels, the new Catholic cathedral in Los Angeles, seems a depressingly ordinary LA experience. One door on Temple Street opens on to a giant underground car park, a second on to a multi-layered plaza decked with café tables. Beyond it, the brutal cuboid building in sandy louvred stone could be a bank or an office complex. The only intimations of the spiritual are a fountain offering “living water” and, far away on the northern edge of the plaza, a glass wall etched with ministering angels that screens the sight, though not the sound, of traffic on the Hollywood Freeway.

The fountain is also the first indication of the sheer size and complexity of the archdiocese the cathedral serves. It is the country's largest and fastest-growing, with more than 4.5m Catholics in almost 300 parishes. Many of these Catholics are new immigrants, many illegal aliens. The fountain is engraved with the words for “living water” in the 38 languages in which Mass is said in the archdiocese each Sunday. Catholicism here takes multiple forms, from a charismatic Mexican church in a disused cinema on Broadway, to the white preening neatness of Beverly Hills, to a recent celebration for the city's Nigerian faithful, where the first reading was in Igbo and the second in Swahili.

Not surprisingly, this is also a diocese in deep fiscal trouble. The accounts for the last fiscal year, which ended in June 2003, showed a deficit not of $4.3m, as had been predicted, but of $13.4m. Critics of the new cathedral, which cost $190m, were quick to place blame, but the building has been paid for mostly by donations and a bank loan; instead, about half of the deficit, $7.7m, was a one-off settlement of claims of sexual abuse by priests.

But even without the paedophiles, the archdiocese would be struggling. Returns on investment have been slashed by the falling stockmarket. “It's a shame”, says Tod Tamberg, the archdiocesan spokesman, “that Jesus can't give us a stockmarket tip now and then.” Costs, especially wages and pensions for lay employees, are rising all the time. Almost the only bright spot is the increase in income from burial plots as the older parishioners die off.

As early as last September, when it saw the crisis coming, the archdiocese eliminated seven centrally run ministries—including abortion counselling and the gay and lesbian ministry. Sixty lay employees were sacked, and five officials resigned in protest at their sackings. Where outside funding can be found, the work is now done by parishes.

These economies come when the archdiocese, with its huge numbers of young people and non-English-speakers, needs to spend money—not just on evangelisation but on propping up poor schools and even, some say, on politics. At this year's synod, which has just ended, the parishes urged the archdiocese to back the causes of the city's largely Latino force of caretakers and hotel workers, who want better pay and conditions. If the archdiocese is to fly the flag of “social justice” as well as spiritual renewal, it can hardly keep on cutting its own ministries and staff.

Lay workers are all the more needed because there are so few priests. Los Angeles, of course, shares this problem with the whole Catholic church; but the problem is acute here. The archdiocese has only one priest for every 4,000 souls, and only four have been ordained this year. According to Mr Tamberg, some hope lies with the new arrivals, especially the latest waves of Mexicans, Vietnamese and Filipinos, who have brought their zest for priesthood with them. But the newly appointed director of vocations, Father James Forsen, already sounds a weary note. He is embarking on intensive consultations to find out why so few young men want to be priests.

The sexual scandals, as Father Forsen admits, have not helped. A priest's life is hard enough without suspicion and scrutiny. Some 300 claims of abuse in Los Angeles are under investigation. Ten priests already face charges. For a time it seemed that a state law passed in California that lifted the statute of limitations in criminal prosecutions of old molestation cases, might overwhelm the archdiocese with sexual-abuse claims dating back as far as 1947. The Supreme Court overturned that law in June, but the shadow remains.

The long-term effect of the scandal is not financial: the payment of $7.7m will not recur, insurance should cover any others, and offerings from parishioners are slightly up, surprisingly. Rather the long-term effect is moral, in terms of damage done to the reputation of all clergy, guilty or innocent. And no one draws more fire than the first priest of the archdiocese, Cardinal Roger Mahony.

New building, old cardinal

Cardinal Mahony's image in Los Angeles is often a genial one: enthusing for his new church, or impishly promoting the cathedral's own-label wine in the gift shop. Outside, he seems a far sterner character. Los Angeles is the only archdiocese in the country that believes its files on priests are protected under the First Amendment. The cardinal criticised the data-gathering efforts of the National Review Board, which was set up to monitor the church's response to sexual-abuse cases, insisting on procedures that would have slowed its work to a crawl. When Frank Keating, the board's chairman, resigned last spring, he described Cardinal Mahony as a man who listened “too much to his lawyer, and not enough to his heart”.

From his own point of view, the cardinal has done much to counter scandal in the archdiocese. A policy of zero tolerance has been in place for some months, a special panel on overseeing allegations of sexual abuse has been set up, and every parish is meant to have a “Safeguard the Children” committee, dealing with everything from consultations with psychiatrists to better lighting round basketball courts. He has forced some erring priests to retire. Yet Cardinal Mahony still protects others, and is reluctant to hand their documents over. He is of the school of old Irish priests, like Bernard Law, the former cardinal in Boston, who believe that the Church should sort out its own black sheep.

The new cathedral will be his particular legacy, and an impressive one. It has taken almost a century to appear. Despite those first impressions, it is a powerful and dramatic space, and a grand focal point for the sprawling city. Together with Frank Gehry's new Disney Concert Hall, a fabulous burst of titanium-clad curves and towers a few streets away, it has given Los Angeles a centre at last. Yet the cardinal's many critics may well find symbolism in the cathedral's extraordinary use of alabaster: an intricate, complex and confusing material, vulnerable to intense heat, and admitting murk rather than light.

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California's recall race

A thriller at last

Jul 31st 2003 | LOS ANGELES
From The Economist print edition

A budget at last. Now who will run against Gray Davis?

Get article background

IF CALIFORNIAN politics were a movie, you would demand a rewrite of the first two acts. First you get months of tedium; then everything happens at once, and the action hero leaves early. After endless wrangles, California finally has a budget. Meanwhile, politicians have until August 9th to decide whether they want to run for the biggest prize in state politics, the governorship, which could be involuntarily vacated by Gray Davis if he is voted out in a recall ballot on October 7th.

On July 28th, more than three weeks after the beginning of the fiscal year, the state Senate approved a budget; a day later, the Assembly followed suit. And Mr Davis has promised to sign it. Yet nobody appears particularly happy with the result. The $38.2 billion hole in the state's finances is being covered by a hodgepodge of measures including a tripling of the car-licensing fee, some $10 billion in spending cuts on social programmes and a $10.7 billion bond issue linked to a revenue-swapping arrangement with the counties.

No stomach for a fight

It is not hard to see why Standard & Poor's recently downgraded the state's debt to near junk-bond status. The budget bets that the federal government will cough up a $2.2 billion contribution; that the state can renegotiate its deals with casinos on Indian reservations; and that state employees will accept pay cuts. None of these is a sure thing. Meanwhile, lawsuits have already been filed against the car-tax increase and the bond swap.

Californians will have to get used to budget crises. The Legislative Analyst's Office already reckons there will be a shortfall of close to $8 billion next year, even if all goes according to plan this year. And even at the best of times it is hard to get a budget through the legislature because it requires a two-thirds majority—something even the currently dominant Democrats cannot deliver.

It would of course be a great blow to that dominance if Mr Davis were to be dislodged. In October, voters will have to answer two questions on the ballot: first whether they want to get rid of Mr Davis; and, second, whom they want to replace him were he to go. To become a potential candidate for his job requires just $3,500 and 65 signatures, so dozens of would-be governors have come out of the woodwork, from students to billboard pin-ups.

The heavyweights may well not play their cards until the last possible moment before the August 9th deadline. The official Democratic position is that Mr Davis is the candidate, so nobody else can stand. In theory, liberal Californians will stare at the list of conservative Republican contenders and decide to keep Mr Davis, who has promised to fight like a “Bengal tiger”.

But what if independent voters—the state's biggest voting block—see the name of, say, Richard Riordan, a moderate Republican who was the former mayor of Los Angeles, a Democrat city, and decide that he provides a safe alternative? The prospect of that happening explains why some Democrats now insist Senator Dianne Feinstein, the most popular politician in the state, must stand.

The most dysfunctional state Republican party in the nation is hardly in better shape. As *The Economist* went to press, it looked as if Arnold Schwarzenegger was likely to chicken out of the contest and to back the increasingly elderly Mr Riordan, who still looks the Republicans' best bet. Yet as Allan Hoffenblum, a Republican consultant, points out, the chances of his party neatly aligning behind one candidate are non existent. At least three conservatives look set to run: Darrell Issa, the king of car alarms who bankrolled much of the recall campaign, Bill Simon, Mr Davis's opponent in last year's gubernatorial race, and Tom McClintock, a state senator.

It is hard to see any conservative attracting many votes, but they may not need to. In a crowded field, 20% or less could be enough to win. By contrast, poor Mr Davis has to get 50% on the recall, or he is out. That might yet win the Bengal tiger the odd bit of sympathy. Californians do not like Mr Davis, but they may also decide that a recall process, originally meant to get rid of crooks not incompetents, has been distorted. The last act of this movie could be no better than the start.

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Energy policy

Roll out the pork barrel

Jul 31st 2003
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A truly ghastly bill that George Bush should veto, but probably won't

AT A time of soaring budget deficits, it might seem prudent to avoid blatant give-aways to industry. That message seems entirely lost on Congress—especially when the nation's supposed “energy crisis” is the topic of the hour.

Back in May, the House of Representatives passed an energy bill full of grotesque subsidies. Now it is the Senate's turn. With the recess looming, an energy bill was still being thrashed out as this newspaper went to press. But with several hundred amendments already mooted, and many of them doling out billions in handouts, the picture was pretty clear.

Just for starters, the bill seemed likely to include $35 billion for research and development in just about everything from nuclear power to clean coal. The fossil-fuel industry was also set to get the usual royalty exemptions on federal lands, along with the other tax breaks so vital for a business located in so many swing states. George Bush's plan to open up bits of the Alaskan National Wildlife Reserve to oil drilling may be gone, but that has provided a nice pretext for senators to help build a natural-gas pipeline from Alaska.

The nuclear business could well get not just subsidised insurance but, more outrageously, loan guarantees merely for building and operating new plants. As Aileen Roder of Taxpayers for Common Sense points out, it is absurd for the government to do what shareholders already pay managers to do: building and running plants.

The green lobbies are no more virtuous. The bill contains billions of dollars in tax incentives for various boondoggles connected to energy efficiency and renewable energy. But there is not a single word about a carbon tax, which would achieve green goals without distorting markets. Citing “energy security”, politicians from farm states hope to get massive subsidies for ethanol, an entirely unnecessary, uneconomic and ungreen (if the entire “life cycle” of ethanol is considered) fuel additive derived from corn.

Two considerably greener amendments fared less well, thanks to corporate interests. One tried to tighten up America's fairly toothless standards for fuel efficiency in cars—and was duly squashed by Detroit. Meanwhile, Joe Lieberman and John McCain, neither great friends of the president, looked set to introduce a mandatory “cap and trade” system for controlling emissions of greenhouse gases; but even the sponsors admitted it would be squashed by the energy industry.

If the Senate bill passes, it will have to be reconciled with the House bill in a spat of horsetrading after the August recess. The progeny of this coupling may well be still more lumpen than its parents. Will Mr Bush wield the veto for the first time? Not with an election looming. As Jerry Taylor of the Cato Institute jokes, this bill is designed “to leave no lobbyist behind”.

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America and Saudi Arabia

Rough justice

Jul 31st 2003 | WASHINGTON, DC
From The Economist print edition

Is George Bush protecting or punishing Saudi Arabia?

EPA

A furious foreign minister

IT IS a familiar tale. The alleged accomplice of al-Qaeda rails in vain at the perversity of American justice. His accusers refuse to release the evidence against him. Such has been the fate of America's guests at Guantanamo Bay; it is now also the lot of Saudi Arabia.

Of some 900 pages in last week's congressional report on the September 11th attacks, the 28 of them that deal with the role of foreign countries have aroused the greatest controversy—because they were almost entirely blacked-out in the public version. The pages are said to focus on Saudi Arabia, whose foreign minister, Prince Saud, made a hastily arranged visit to the White House on July 29th. Arguing that the censorship was fermenting unjust suspicion of his country, he delivered a letter from Crown Prince Abdullah, the kingdom's de facto ruler, requesting that the pages be declassified. George Bush dismissed the request even before he heard it, arguing that to comply would compromise the ongoing investigation.

The Saudis protest that they have nothing to hide. But there was enough in the uncensored parts of the report to embarrass them. It details the relationship between a Saudi civil servant and two of the hijackers whom he allegedly helped and housed during their stay in San Diego. The Saudis now say that America can interview the man, (who, the report says, “had access to seemingly unlimited funding from Saudi Arabia”), but only on their turf. The censored pages reportedly make further allegations about the indirect flow of cash from Saudi Arabia to al-Qaeda. According to horrified American diplomats, they rehash the story of donations made by the wife of the Saudi ambassador in Washington, also said to have ended up in the pockets of terrorists.

Amid all the murk and sanctimony, two things are clear. One is that the Saudis still have much explaining to do. The ruling family argues that it is itself a target for al-Qaeda, and it has indeed been tougher with Osama bin Laden's men since the bombings in Riyadh in May (see article). But it needs to do more about the anti-western bile purveyed in mosques that propound a fundamentalist version of Islam.

The other sure thing is that the Saudi-American relationship is changing. After the conquest of Iraq, American officials announced their intention to pull almost all their forces out of Saudi Arabia, thus assuaging Mr bin Laden's top grievance. The defeat of Saddam Hussein has also enabled them to be tougher with the Saudis about their links with terror. Some congressmen have argued that the 28 pages could be safely released without harming America's security, and that by not doing so the president is protecting an undeserving friend. But it is equally possible that by letting the rumours swirl, Mr Bush is turning up the heat on an erstwhile ally.

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Doctors v lawyers

An end to the nuisance

Jul 31st 2003
From The Economist print edition

Would special medical tribunals for malpractice claims be a good idea?

IF YOU were an American surgeon, could you really trust yourself to operate on a lawyer? Thanks to the enormous number of medical malpractice lawsuits, doctors can now get insurance only at exorbitant rates. Many say they have to practise “defensive medicine”, performing unnecessary tests or giving up litigious disciplines.

The typical award in medical malpractice cases is now about $1m according to Jury Verdict Research, a research firm, compared with $362,500 in 1994. Around a third of this money goes straight into the pockets of the lawyers, who, doctors claim, have manufactured a mini-industry of sympathetic “experts” to sway juries.

On the face of it, the doctors have strong ground for grievance. Back in 1990, researchers at Harvard University, having combed through 30,000 records of patients at 53 New York hospitals and 67,000 court records, concluded that 83% of the malpractice claims did not involve negligence by doctors. A more recent study, this time of cases in Colorado and Utah in 2000, also found doctors innocent in 78% of the claims. Many of these nuisance lawsuits are dropped or defeated but the average cost for the doctor is $17,000.

Interestingly, both studies claim that very few genuine victims of poor doctoring—a mere 3% in both reports—bothered to file claims. The poorest patients were the least likely to sue. With doctors fighting tooth and nail, an injured patient has to wait 51 months between an alleged incident of malpractice and the verdict. And lawyers and administrative expenses hoover up 54% of each payout.

Lawyers point out that these judicial audits tend to be conducted by doctors; and that juries have often disagreed with the experts. But the current system hardly helps patients. Nearly one in five of the doctors in Pennsylvania who practised obstetrics and gynaecology gave up obstetrics last year because of costly lawsuits. Four out of five doctors polled by Harris Interactive, a consulting firm, confess to having conducted superfluous tests due to fear of litigation. And a series of insurers have gone bust due to malpractice claims.

There is also a political prompt for change. The Democrats, who suck up trial lawyers' cash, have lost control of Congress to the Republicans who get their blood money from doctors and insurers. A congressional report in May said the current system failed to serve victims, but it is hard to come up with a better one.

Earlier this month, the Senate voted down a draft bill, sponsored by Republicans, to put a cap of $250,000 on non-economic damages, or awards for pain and suffering. On the one hand, most Americans still seem to think a ruined life can be worth more than that. On the other, the cap would have still allowed huge lawsuits for economic damages.

As *The Economist* went to press, Michael Enzi, a senator from Wyoming, was inching towards introducing a bill calling for the most radical solution yet: special state medical courts where expert judges, not juries, would have the power to make awards. Although jury-less courts are frowned upon in American criminal justice (outside Guantanamo Bay), they pop up in civil law to deal with tax and custom disputes, as well as workers-compensation cases. Patients would have the right to appeal to a normal appellate court.

The idea has been kicking round at the state level in Pennsylvania, West Virginia, Florida and Nevada. Philip Howard, a lawyer and author who has championed such courts, says that there will be huge

savings not just in costs (no more redundant tests by doctors, lower insurance rates) but in time: victims would get paid more quickly.

In the land of Erin Brockovich, anything that limits Joe Public's rights to sue will be a hard sell. Lawyers claim that tribunals would be doctor-defence organisations. Who else but doctors could be the judges with expertise in medical matters? “Such a system will not be trusted,” says Barry Nace, a trial lawyer. The same, however, could be said for jury awards.

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Censorship in Arkansas

Too hot to handle

Jul 31st 2003 | LITTLE ROCK
From The Economist print edition

Taking things off the bookshelf if they might be harmful to minors

LEAVE it to the politicians of Arkansas, and Donald Duck and Porky Pig might soon be wearing trousers. Last spring, conservatives got a bill through the state legislature insisting that, to protect children, bookstores and libraries must segregate “adult material” from more tasteful stuff. Fair enough, you might think. But Arkansas's state code says something is “harmful to minors” if it has “any description, exhibition, presentation or representation, in whatever form, of nudity, sexual conduct, sexual excitement or sado-masochistic abuse”. Join that up with the new law, and half the books and magazines in a bookstore may need a room of their own, including romantic novels or even children's books with semi-nude cartoon animals like Messrs Pig and Duck.

The result is a lawsuit against the new law from just about everybody in the civil-liberties or book business, including the American Civil Liberties Union of Arkansas, the Arkansas Library Association, the Comic Book Legal Defence Fund (really), and That Bookstore in Blytheville, where Hillary Clinton has just been signing her provocative tome.

The petitioners complain that, strictly speaking, the new law could even apply to books like John Steinbeck's “Of Mice and Men” (because of its vulgar and insensitive language). Conservatives retort that this is a wild over-reaction; their law is merely aimed at true pornography. The judge supervising the case has delayed enforcement of the law—which would have gone into effect on July 16th—until a court hearing is held.

Arkansas already has its share of literary angst. Wal-Mart Stores, based in Bentonville, a highly Republican corner of the state, recently decided not to sell *Maxim*, *Stuff* and *FHM* magazines, whose covers feature bikini-clad babes. Another fuss occurred when a school library in Cedarville, a small west Arkansas town, decided to take Harry Potter books off its shelves and put them in a locked cabinet in the librarian's office because of the scary witchcraft, which might offend Christians. Earlier this year, a federal judge deemed the action unconstitutional on grounds of free speech.

In Arkansas, a quarter of those aged 25 or older do not have a high-school diploma. For these unfortunates, reading a Danielle Steel romance or a copy of *Penthouse* is arguably better than not attempting to pick up a book at all. Let them read Tolstoy, reply the conservatives. Though, come to think of it, Anna Karenina could get you into trouble.

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Lexington

The ghost of Bill Clinton

Jul 31st 2003
From The Economist print edition

The vanishing hopes of the electable wing of the Democratic Party

IN THE 1990s the Democratic Leadership Council formed the Praetorian Guard of the Democratic Party. Bill Clinton first came to national attention as the DLC's chairman. He ran for the presidency on a DLC ticket of fiscal responsibility, welfare reform and putting more cops on the beat. And—a brief lurch to the left in his first term aside—he governed along broadly New Democratic lines. The results weren't that bad: Mr Clinton not only became the first Democrat to win re-election in 50 years, he also presided over the creation of 23m jobs and dramatic reductions in both crime and welfare roles.

You might have thought that the DLC would be making all the running in the Democratic primary season. Who is better placed to reassure the electorate that the Democrats can be trusted with national security than the most hawkish faction in the party? And who is better placed to eviscerate George Bush's record than a group that is synonymous with centrism and fiscal rectitude? Anyone can claim that Mr Bush has squandered the Clinton legacy by destroying 2.5m private-sector jobs and spending the surplus, but it sure sounds more convincing coming from the people who kept Mr Clinton on the straight and narrow.

Yet, as the Praetorian Guard assembled in Philadelphia for its annual meeting this week, the mood was decidedly glum. Al From, the DLC's founder, gave a speech that was reminiscent, at least in tone, of Hugh Gaitskill's great address to a conference of the left-leaning Labour Party in 1960, when he promised to “fight and fight and fight again to save the party we love”. Many of Mr From's troops think that the next election is being lost. The conversation in the corridors was all about the continuing Howard Dean insurgency—and about the party's more general drift to the left. Many people speculated that the 2004 election could be a disaster comparable to 1988 or 1972. Given a choice between governing and venting, the Democrats are going to vent.

Why is the Democratic Party turning its back on the New Democrats and moving to the left? Part of the blame lies with the DLC leadership, which is hopelessly divided between three moderate senators, John Edwards, John Kerry and Joe Lieberman. And part lies with the Clinton-Gore administration. Mr Clinton may have governed as a New Democrat on all the big issues, but he muddied his legacy by pandering to every element in his party—and then Mr Gore muddied it still further by campaigning as a blood-and-guts populist.

The biggest reason for the party's leftward lurch, however, lies with the anti-Bush fury in the rank and file. The party faithful fume that their cowardly leaders in Washington, who supported the Iraq war, have provided an echo, not a choice. In Mr Dean they have finally found a man to express their fury.

Now Mr Dean is a difficult cove. There is, it seems, no shortage of Democrats, or indeed readers of this newspaper, who will rush to deny that he is a straightforward left-wing populist. And they are half-right. He was a moderate governor of Vermont, he supports gun rights and he is picking up some McCainiac independents. But his two signature tunes—total opposition to the war in Iraq and a complete repeal of the Bush tax cuts—are about as straightforwardly liberal populist as you can be. And he is dragging the party with him. Already the primary is becoming something of a contest about whose blood is boiling most—with even nice old Bob Graham talking about impeaching Mr Bush.

The spirit of '72—and the result too

Some Democrats cling to the idea that this stridency might not be such a disaster. Hasn't Mr Bush proved that you can go a long way by pandering to your base? And isn't politics in a low-turn-out society largely about mobilising your supporters? A new DLC poll by a Clinton number-cruncher, Mark Penn, produces two numbers that give the lie to this argument. The first is that only 33% of the electorate describe themselves as Democrats, the lowest figure since the New Deal. The second is that only 35% of Democrats describe themselves as liberal (by contrast, 63% of Republicans describe themselves as conservative).

The Democratic Party has no chance of regaining the presidency or Congress unless it can make inroads into what might be called Bush's America: the America of the growing suburbs (which are “trending” Republican), of married families with children (who favour Republicans by a 20-point margin), of the west and the South. Mr Clinton did it. He carried married parents with children by 7% in 1996 (Mr Bush then carried them by 15% in 2000). New Democratic governors have won in such Republican states as Kansas and Arizona as well as such swing states as Michigan, Pennsylvania and New Mexico.

Yet this is not the public image of the party at the moment. The left's demonising of Mr Bush as “evil” and an “international terrorist”, to quote two popular Democratic slogans, is hardly likely to win over the two-thirds of voters who say that they personally like the man. At a time when “soccer moms” seem to have become “security moms”, people like Mr Graham are haranguing the president on the minutiae of his state-of-the-union address. Republicans have a 28% lead on terrorism, according to Mr Penn, a 33% lead on homeland security and a 35% lead on national security. This chasm between the parties can only widen if Mr Dean, who in the latest polls is just ahead of Mr Kerry in New Hampshire, wins the nomination.

The tragedy in all this for the DLC is that Mr Penn's numbers also show that Mr Bush is no shoo-in for re-election in 2004. Only 48% of voters think that he deserves re-election. Only 45% think that America is headed in the right direction, and only 39% think that the economy is headed in the right direction. But if the Democratic Party continues to ignore its electable wing in favour of the siren voices of the left, then what ought to be a hard slog for the president could turn into a delightful romp.

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Venezuela

Chávez's battle to keep the oil flowing

Jul 31st 2003 | CARACAS
From The Economist print edition

A surprising revival in oil production has increased the president's chances of survival. But can he keep it up?

Get article background

ALÍ RODRÍGUEZ has been many things in his life: guerrilla fighter, economist, oil minister and secretary-general of the Organisation of Petroleum Exporting Countries. As one of the more capable of President Hugo Chávez's aides, since April 2002 he has been charged with running Petróleos de Venezuela (PDVSA), the state oil company and the source of most government revenue. But critics, to both left and right, suggest that his performance there has been more destructive than anything he achieved as a guerrilla demolition expert back in the 1960s. If so, that shows just how precarious is the economic platform underpinning Mr Chávez's controversial “Bolivarian revolution”.

That is thanks in part to Venezuela's opposition, which accuses Mr Chávez of governing as an elected dictator. In a vain attempt to force the president to step down, the opposition brought the oil industry to a halt, with a two-month general strike in December and January. Venezuela's oil output, the world's fifth largest, fell from 3.2m barrels per day to a low point of under 40,000 b/d. The government rode out the strike and sacked almost half of PDVSA's 40,000 workers. At least 400,000 b/d in production capacity was permanently lost. Nevertheless, to the surprise of many, oil output has recovered quickly. The company insists it is now producing 3.3m b/d, more than it did before the strike.

Mr Chávez argues that PDVSA, which was created in the nationalisation of Venezuela's oil industry in the 1970s and is Latin America's largest company, had become the private fief of a technocratic elite, who ran it, opaquely, in their own interests. The company has been reclaimed “for the people”, he says. His energy minister, Rafael Ramírez, claims that costs have been cut by 40% and payments to the government will rise. Mr Ramírez touts an expansion plan to boost the industry's output to 5m b/d by the end of next year.

Should these claims be believed? It is impossible to judge. PDVSA has yet to close its books for 2002, and is late in completing its annual filing to the United States' Securities and Exchange Commission. (It is required to make an SEC filing because its wholly-owned subsidiary, Citgo, is an American company.) The figures, when they do appear, will be closely examined. Some Venezuelans argue that the strike and its aftermath have left the company's accounting in chaos. Those sacked are said to have included at

least 85% of the staff of the finance department.

Royalties, payable by private oil companies and by PDVSA, are being calculated by “guesswork”, claims Alberto Quiros Corradi, formerly a director of the firm and now an adviser to the opposition. He says that production is no longer being certified: “If it were, there's no way they could back up the 3.3m b/d figure.” In common with other industry analysts, he reckons that output is about 2.7m b/d or less. Even that is probably unsustainable: without maintenance and fresh exploration, Venezuela's oil output falls by 25% each year, as wells slow or become blocked. The critics say that such spending has been slashed: fewer than half as many drilling rigs are operating as were in use last year. They also accuse PDVSA of deliberately over-exploiting some fields, to the detriment of future production.

It is not just the opposition, however, that is hurling abuse at Mr Rodríguez. Some of the fiercest criticism has come from Mr Chávez's own supporters. They accuse him of implementing the previous government's plan to privatise chunks of the oil industry. Over the past decade, foreign companies have been brought in to help PDVSA renew old fields, and to develop deposits of heavy oil. They have boosted output, and may account for almost 1m b/d now, some 50% more than before the strike. They might also provide the lion's share of the planned expansion.

Rumours abound that Mr Rodríguez may be replaced. Such rumours reflect infighting between half-a-dozen different Chavista factions who, for ideological or opportunistic reasons, each want to get their hands on the oil company. At one extreme, the radicals want to run it under workers' control; they have already achieved the sacking of senior managers who were deemed insufficiently revolutionary. At the other extreme, some senior generals are worried that the rival Chavista clans may tear the industry apart. Which faction, if any, has the president's ear is not clear. Having gone through five PDVSA chairmen in less than five years, Mr Chávez may be reluctant to axe another one. On the other hand, the oil industry remains vital to the president's survival.

The opposition has lost most of the influence it once enjoyed in PDVSA and in the top ranks of the armed forces. It is banking now on a referendum to cut short the president's term. Under the constitution, that can be held any time after August 19th. But the government is likely to place many legal hurdles in the way of any vote. Provided the oil keeps flowing, Mr Chávez will be hard to oust.

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Guatemala's election row

General riot

Jul 31st 2003 | GUATEMALA CITY
From The Economist print edition

A former dictator divides a struggling democracy

Get article background

TO HIS many detractors, he is simply “General genocide”. To his supporters, he is the strongman who will tackle crime and corruption and rescue his country from the grip of a selfish oligarchy. Either way, General Efraín Ríos Montt, a former dictator, divides Guatemalans. His attempt to stand for president in an election due on November 9th has sparked riots, legal battles and widespread concern for Guatemala's far-from-consolidated democracy. Two days of street violence last week were followed by a weekend of swirling rumours of coups and army uprisings. Guatemalans are braced for a difficult couple of months.

The violence, in which a journalist died from a heart attack, was the work of thousands of hooded supporters of Mr Ríos Montt. Despite the general's denials, there is much evidence that it was orchestrated by his party, the Guatemalan Republican Front (FRG). Its main aim seemed to be to intimidate the judges who must decide whether or not Mr Ríos Montt can be a candidate.

The 1985 constitution, drawn up at the end of 30 years of military rule, specifically states in Article 186 that former dictators cannot run for president. That is a problem for Mr Ríos Montt. He was Guatemala's military dictator for 17 months, after a coup in March 1982. On two previous occasions, Guatemala's three highest courts have ruled that he is ineligible to stand. This year, two of these courts did so again. But last month, the highest of the three, the Constitutional Court, decided by four votes to three that the general could run.

His supporters argue that the constitution cannot be applied retroactively. They also say that since Article 186 was written specifically to bar Mr Ríos Montt, it infringes his democratic rights. The Supreme Court then accepted an appeal against the Constitutional Court's decision, on procedural grounds. But the legal ping-pong continued this week: the Constitutional Court confirmed its decision, and ordered the electoral body to register Mr Ríos Montt as a candidate.

Elsewhere in Latin America, soldiers have evolved into democratic politicians. But General Ríos Montt was no ordinary dictator. He presided over the bloodiest phase of a civil war between left-wing guerrillas and military governments in which 200,000 were killed (nearly all of them by the armed forces). He is accused of ordering the razing of Mayan Indian villages, and the massacre of thousands of villagers. Human-rights groups have filed charges of genocide against him in Guatemala's courts. His opponents argue that he is now trying to strong-arm his way to the presidency, using mobs and intimidation, especially against journalists.

His supporters hail Mr Ríos Montt for having crushed a communist guerrilla insurgency, and brought order to a country degenerating into anarchy. Ironically, he draws much of his support from the highlands, where many of the massacres took place. He is a born-again Christian in what is now Latin America's most Protestant country. His supporters also argue that he has proved his democratic credentials. The FRG, founded by Mr Ríos Montt in 1989, is Guatemala's best-organised political party. Mr Ríos Montt is the president of the country's Congress, whereas Guatemala's current president, Alfonso Portillo, was elected on the party's ticket.

But many Guatemalans believe that Mr Ríos Montt's baleful influence has held back the progress of democracy. They worry that the government will fail to stop intimidation by FRG mobs. That seemed to be the case last week. On July 28th the head of the police was sacked for not curbing the rioting. But some Guatemalans fear he was never given orders to do so.

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Montserrat

Disaster area

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From The Economist print edition

How to make a living from a volcano

THOSE who doubt that the earth is an unstable planet should consider Montserrat. In 1995 and again in 1997, its Soufrière volcano erupted, destroying the capital, Plymouth, the port, and the airport. Since then, the southern two-thirds of Montserrat, a British overseas territory (ie, colony) in the Caribbean, have remained a no-go zone. Most Montserratians were evacuated. They now live in nearby islands or in Britain.

But 4,500 people cling on in a “safe zone”, about six miles (10 kms) by five. Britain has spent more than £180m ($290m) keeping them there—being a colonial power is an expensive business nowadays. There is a subsidised helicopter service and ferry to Antigua. Everything has been built anew: schools, hospital, power supply, and now a port, airport, and 20-cell prison. Last month, the volcano spewed a cloud of ash nine miles high, and dumped rocks as big as golf balls on to roofs and gardens. Dealing with this has cost another $2.4m.

Clare Short, Britain's then International Development minister, famously offended the locals in 1997, complaining “they'll be wanting golden elephants next”. She was right that a complete evacuation would have been cheaper. Can Montserrat now make a living?

It attracts a few day trippers, has a tiny offshore financial sector and plans an internet gambling operation. More lucrative may be a medical school, for American and South Korean students, which plans its first intake of 60 students in September. But the best bet is a plan for a postgraduate school of disaster studies. Sadly, Montserrat and its neighbours have plenty of experience to offer: hurricanes and mudslides, as well as earthquakes. Montserrat may at last have found a comparative advantage.

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Cuba's economy

The dollarised revolution

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From The Economist print edition

Everyone, from the government down, is scrambling to make a buck

Get article background

THEY stand out against otherwise dilapidated downtown Havana. Supermarkets and clothes shops, fast-food joints and liquor stores, ice-cream parlours and even shopping malls: all beckon with goods and services which had disappeared after Cuba's 1959 revolution. And they all have one restriction: shoppers must pay in dollars, not Cuban pesos.

Ten years ago last weekend, Fidel Castro, Cuba's president, made the embarrassing announcement that his people would no longer be imprisoned for holding American currency. Quite the contrary: the government would open shops where they could spend dollars sent from relatives abroad. He also said that Cubans living in the United States, previously condemned as traitors and "worms", were not so bad after all. They were welcome to visit, and to send their dollars home. At the same time, for the first time since the revolution, Cubans were allowed to be self-employed, meaning that they could set up small businesses, from family restaurants to locksmiths to home gyms.

These measures were part of a desperate effort by Cuba's communist government to garner hard currency and create jobs lost when the Soviet Union collapsed, crippling its Caribbean economic satellite. Despite some recovery in the late 1990s, that task is still not complete, Mr Castro admitted last weekend.

Legalising the dollar was the most controversial measure, since it introduced new inequalities. Yet it is hard to find anyone who wants it reversed. "The measure created rich and poor for the first time since the revolution," a government economist admits. He says that remittances from Cuban-Americans topped $1 billion last year, and that some 5,500 "dollar shops" (including petrol stations and restaurants) catering for Cubans and tourists alike brought in almost half of Cuba's total foreign-exchange revenues of around $5 billion. More than 60% of products used by the tourism industry are locally supplied, helping to revitalise local industry and create jobs.

But the effect has been to turn Cubans into a nation of hustlers. The average wage of 350 pesos a month ($13 at the street exchange rate) buys little. Some basic foods are available in dingy peso shops and through ration books. But dollars are needed to get cooking oil (a week's pay per litre), soap (a day's wages per bar) and detergent. Fruit and vegetables are expensive too. According to the government, 60% of Cubans have some access to dollars, but most in small amounts.

So almost everyone scrambles to make an extra buck or peso. Teachers tutor at home; nurses care for the sick at night; doctors rent their cars; the elderly hawk rationed cigarettes and cigars, and some rent rooms to prostitutes. Farmers sell coffee and tobacco on the side. Housewives sell pastries from their back doors, and bus and truck drivers peddle petrol.

The government, too, is scrambling around for dollars, to import fuel, food and other basics. Last month, it banned state companies from using hard currency; instead, they must surrender their dollars in return for "convertible pesos", which they can use for trade with other state firms. That has caused confusion among foreign banks and companies, and the 403 joint ventures between foreigners and the state. Officially, they are exempt from the decree, but they regularly do business with state firms. For transactions with foreigners, state companies can buy back their dollars from state banks, but at a 2% commission and after a wait of up to 30 days.

Foreign banks told the central bank they would no longer issue letters of credit, leading it to add a clause

that guaranteed them. Some foreign traders said they had ceased business with Cuban firms until it was clear how and when they would be paid. “Who's to say a payment won't be denied if the choice is between our company and buying milk,” a foreign businessman said. He added that the 2% commission would be passed on to him. When it comes to foreign investment, as with the dollar, Cuba's government knows it must deal with the capitalist world—but is far from happy about that.

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France and South America

Bungle in the jungle

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A naive French initiative goes wrong

JUST what were four booted and rucksacked Frenchmen doing when they hired an air taxi in Manaus, in the Brazilian Amazon, last month and flew a thousand kilometres to the Colombian border? They had arrived the previous night on a French air force Hercules cargo plane. According to *Le Monde*, they were not the eco-tourists they seemed, but a doctor, two secret-service agents and a senior aide to Dominique de Villepin, the foreign minister.

They were hoping (in vain) to pick up Ingrid Betancourt, a Colombian politician kidnapped by FARC guerrillas 17 months ago while campaigning for the presidency. That much was eventually admitted by Mr de Villepin, who said he had been contacted by Ms Betancourt's family. The foreign ministry denies negotiating with the FARC, and a host of wilder rumours: that France would give medical treatment to an ill FARC commander, or that the Hercules was carrying arms for the guerrillas.

In Colombia, Ms Betancourt was seen as a political maverick; she had lost much of the support she briefly enjoyed as an anti-corruption campaigner. But in France she is a *cause célèbre*. Because she was once married to a French diplomat, she has French as well as Colombian nationality. She is a personal friend of Mr de Villepin's, who taught her at Paris's Institute of Political Science.

Mr de Villepin insists he was acting for “humanitarian” reasons. If so, why did he fail to keep Brazil, Colombia or even his own cabinet colleagues fully informed? He showed, at best, naivety. Brazilian officials are fuming: the French refused to let police inspect the Hercules. Colombians are annoyed, too. Ms Betancourt is only one among some 900 hostages (including three Americans) held by the FARC. President Álvaro Uribe has set strict conditions for talks, wishing to discourage further kidnaps. But in South America, France appears to favour pre-emptive unilateralism.

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The Philippines

In search of a conspiracy

Jul 31st 2003 | MANILA
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Reuters

President Arroyo (pictured) puts down a mutiny

Get article background

THE government of President Gloria Arroyo never appeared in any danger of being overthrown when 296 young military officers and men seized a shopping mall in Manila in the early hours of July 27th and demanded that the president step down. All the same, a soldiers' mutiny, though quickly suppressed, cannot be good for a government. It claimed one top official, the chief of army intelligence, Brigadier-General Victor Corpus. In his resignation letter to Mrs Arroyo on July 30th he said, “I feel the restiveness will not calm with my continued presence.”

The rebels surrendered 19 hours after they mutinied, having failed to elicit any sign of support from the rest of the armed forces or the general public, and having been threatened with attack by besieging troops loyal to the government. Mrs Arroyo declared a state of rebellion and said the full force of the law would be used against the rebels and any civilian politicians involved in the uprising.

Initial police investigations suggested the involvement of Mrs Arroyo's predecessor as president, Joseph Estrada. Mr Estrada denied this. Mrs Arroyo replaced Mr Estrada in 2001, when he was deposed by a popular uprising supported by the armed forces. He is now in jail while he is tried for corruption. But Mr Estrada insists that he is still the rightful president. The theory that the rebellion was an attempt to restore Mr Estrada to power was, at least in the immediate aftermath, weak. Even if the theory is proven, the attempt itself appeared destined to fail.

For days beforehand, the government had been listening patiently to complaints by junior military officers about corruption among the top brass, and the poor pay and conditions of the other ranks. The government discovered that a mutiny was in the offing and, the evening before, Mrs Arroyo ordered the arrest of the suspected plotters. When the mutiny began, 70 young officers and 226 other ranks occupied part of a shopping mall in Makati, the financial district of Manila. The section they seized included a hotel and apartments where a number of foreigners, including the Australian ambassador to the Philippines, were staying. But the mutineers do not appear to have intended to take hostages, and the ambassador and all the other occupants were unmolested.

The rebels were carrying small arms, and set explosive charges around their position. Soon after, they were surrounded by hundreds of troops loyal to Mrs Arroyo. The rebels repeated previous complaints about corruption and pay. And they made public some specific allegations. They accused senior officers of selling ammunition to communist and Muslim separatist guerrillas. They said senior defence officials had instigated two bomb attacks this year in the southern city of Davao that together killed 38 people. The purpose of the bombings, according to the mutineers, was to persuade the United States to give the Philippines more financial aid for its campaign against terrorism.

They accused the president of planning to declare martial law so that she could remain in power after her term of office expires next year. They demanded that Mrs Arroyo and her cabinet, particularly the defence secretary, Angelo Reyes, step down. Confusingly, they denied that they were attempting a coup. Later, it became evident at a press conference in the mutineers' hotel-lobby redoubt that some of the officers were in a highly emotional state, and that they had not agreed among themselves on exactly what they wanted.

Mrs Arroyo announced the creation of two independent commissions of inquiry, one to look into the causes of the rebellion, the other to investigate the particular allegation about the bomb attacks in Davao. The poverty of other ranks is no surprise. A private soldier is paid 5,775 pesos ($106) per month. And corruption among senior officers is no secret. Communist and Muslim separatist guerrillas have acknowledged that they buy weapons from the armed forces. The defence secretary vehemently denied the accusation that the armed forces commissioned the bomb attacks in Davao.

The idea that Mrs Arroyo plans to declare martial law so that she can remain in office is tortuous. She would have a reasonable chance of winning the next presidential election, which is due next year. But Mrs Arroyo has said she has no wish to run. The notion that opposition politicians instigated the rebellion is based on shaky evidence. Still, the mutineers had expensive radios that were not military issue, suggesting that the rebellion may have been financed by outsiders.

After the mutiny, the police raided a house owned by one of Mr Estrada's former ministers, Ramon Cardenas. They say they found firearms and red armbands of the kind worn by the rebels. Mr Cardenas was arrested. He said he was innocent. Government officials said they also suspected an opposition senator, Gregorio “Gringo” Honasan. When Mr Honasan was an army officer he took part in a series of unsuccessful coups against the then president, Corazon Aquino. The mutineers were found in possession of copies of a political tract he had composed. Senator Honasan said he had had nothing to do with the mutiny.

Assuming that the rebellion was, indeed, instigated by politicians, their main purpose may have been only to embarrass the government, rather than overthrow it. If so, the attempt backfired. Mrs Arroyo emerged from the crisis having shown that she was firmly in control, and took credit from her allies for having ended the mutiny without bloodshed. This might even help her chances if, as many sceptics expect, she changes her mind and decides, after all, to run for election.

Filipinos, beset by conspiracy theories, are in danger of overlooking one obvious explanation of the mutiny: that young, idealistic but immature officers, upset by shortcomings in the institution they serve, decided simply to protest in a manner that they calculated, correctly, would get the attention of the nation.

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Afghanistan

Cash with strings

Jul 31st 2003 | KABUL
From The Economist print edition

Worries over American aid

AP

Sweet liberty

Get article background

THE announcement this week of a boost in annual American aid to Afghanistan, to a reported $1 billion, should be good news. Afghanistan can use all the help it can get. Much of the $4.5 billion promised it by various countries last year has failed to show up. Even if it all showed up, in a usable form, it would come nowhere near the lowest World Bank estimate of what is needed to put the country back together. Increased American aid could spur others to be more generous. It also usefully underlines, in Kabul as well as Washington, that the promises George Bush made to the Afghan people have not been forgotten.

The intent is clear. By spending more now, the United States hopes to bolster the transitional government of Hamid Karzai before elections planned for October next year. At the same time, the White House is calculating that a moderate, democratic Afghanistan will play well for Mr Bush at home, particularly set against the problems in Iraq.

Publicly, senior Afghan officials have applauded the proposed aid package. They could hardly afford to do otherwise; the American emphasis on building things that illiterate Afghans can actually understand, such as schools, clinics and roads, is exactly what they had been calling for all along. In private, there are misgivings. The aid package calls for installing tsar-like American officials in key ministries. Some senior Afghan officials fret that this could undermine Mr Karzai's authority and irritate other donors who, unlike in Iraq, have shared the enormous burden of rebuilding Afghanistan.

Aid agencies are more interested in the quality of the American aid package. They fear that much of what Washington claims as fresh money is more fairly seen as accelerated delivery of the $3.3 billion over four years that Congress earmarked for Afghanistan in 2001, and that it will be frittered away on expensive consultants and imported building materials. “What Afghanistan needs is labour-intensive aid; simple buildings, locally built,” says an aid-agency country director. “It does not need more Beltway bandits with paper recommendations.”

There has been a growing emphasis by the United States on reconstruction. But reconstruction is a hard message for the Americans to press home. If it is a useful weapon against terrorism why has there been so little of it in the disaffected Pushtun south of the country? And why does American money for it still pale against the $10 billion a year spent on keeping its military in the country?

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Cambodia

Counting on the young

Jul 31st 2003 | PHNOM PENH
From The Economist print edition

Election pointers to the future

THE scene might easily have been mistaken for a village fair. Canvas tents had been erected to shelter the proceedings from the tropical sun. Hawkers circulated, offering chunks of ice-cold sugarcane and slices of guava with chilli. Curious bystanders milled about, or squatted in circles for a chat. Only the ballot boxes and voting booths indicated that the occasion was an election, Cambodia's fourth since the end of its 20-year civil war.

There were fireworks, too, when a small bomb exploded outside the headquarters of the royalist FUNCINPEC party, and a grenade was discovered near the royal palace. But the crowd that came to inspect the scorch marks on the pavement seemed more curious than concerned. By Cambodian standards, the poll passed peacefully. The tens of thousands of election monitors, both foreign and local, found little to complain about on the day.

Earlier, though, the two biggest local monitoring groups had expressed concern that “a climate of fear” would prevent many Cambodians from casting a free ballot. In the countryside, where 80% of Cambodians live, villagers complained that local officials pressed them to vote for the ruling Cambodian People's Party (CPP). In a survey conducted this year by the Asia Foundation, an American outfit, 15% of respondents said they would never dare to vote against the government.

Such intimidation doubtless played a part in the CPP's strong showing. Although official results will not be announced until August 8th, the party says it has won over 50% of the vote, and 73 out of 123 seats in the National Assembly, an increase of nine from the previous election in 1998. Since parliamentary rules require a two-thirds majority to pass legislation, the CPP will need to form a coalition with either FUNCINPEC or the Sam Rainsy Party, each of which looks set to win some 25 seats.

Both parties are disputing the CPP's projected results, and say that they will not join any government led by Hun Sen, the CPP's leader and Cambodia's prime minister since 1985. This is probably posturing: in 1998, under similar circumstances, the two parties huffed and haggled for four months before FUNCINPEC agreed to form a government with the CPP. Most observers expect that FUNCINPEC will eventually break ranks again this time, too.

Nonetheless, the results will encourage the Sam Rainsy Party. It looks likely to pick up an extra ten seats or so. As Sam Rainsy, the leader of the party, quickly pointed out, it fared best in cities and accessible rural regions where information flows relatively freely. He also claims to have greater support among younger voters. If so, his party's fortunes can only improve as the urban population grows, education improves, and young voters swell the rolls (another 1.2m, or almost a fifth of the current total, should reach voting age before the next election). The CPP's chief selling point is that it toppled the Khmers Rouges back in the 1970s, before many of today's voters were born.

Meanwhile, FUNCINPEC faces a precipitous decline. It has tried to parlay the popularity of the king, Sihanouk, and nostalgia for the period in the 1960s when he ruled directly, into electoral support. But such memories are fading fast for Cambodians. King Sihanouk is in poor health, and CPP loyalists dominate the council that will pick his successor. At the past two elections, FUNCINPEC has appeared unprincipled by first criticising the CPP and then joining forces with it. Several of its members have insisted that this time the party must not let the CPP push it around. But that is something all Cambodians find it hard to avoid.

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Pakistan and America

Tricky diplomacy

Jul 31st 2003 | LAHORE
From The Economist print edition

Musharraf talks of ties with Israel

AFP

Get article background

SINCE his return from the United States in June, General Pervez Musharraf has been stunning Pakistanis by saying they should debate the pros and cons of recognising Israel. The country is awash with anti-Semitism and the green Pakistani passport is stamped with the words, “Valid for travel to all countries of the world except Israel.” General Musharraf also seems to favour sending Pakistani troops to Iraq to bolster peacekeeping efforts by American forces, provided some sort of legitimising Islamic or United Nations support can be found. He has just toured a clutch of moderate Muslim states in the Middle East and North Africa in the hope of persuading them to provide such a platform. But most Pakistanis are rabidly anti-American, and his seemingly pro-America views are seen as unrepresentative.

The American Congress has not helped Pakistan's cause by floating a bill that lays down conditions for obtaining the $3 billion, five-year grant package pledged by Mr Bush during General Musharraf's trip to Camp David. The bill requires the American president to certify every year that Pakistan has closed all known terrorist training camps operating in the country and Pakistani-held Kashmir; has established “serious and identifiable” measures to prohibit the infiltration of Islamic extremists into India; and has ceased to transfer weapons of mass destruction to any third country or terrorist organisation.

Pakistan believes that Indian and Israeli lobbyists have convinced American congressmen that Pakistan is guilty on all counts, which it denies. In fact, India's growing links with Israel have alarmed the Pakistanis. While Pakistan has been starved of American weapons since sanctions were imposed on it in 1990, it notes that India has signed, or has in the pipeline, defence agreements with Israel worth $3 billion, making Israel the second largest supplier of arms to India after Russia. The Israeli prime minister, Ariel Sharon, is expected to visit India in September.

Apparently, General Musharraf thinks that by recognising Israel and initiating diplomatic relations with it, he can thwart the anti-Pakistan Indo-Israeli nexus. Privately, in the past Pakistan was not averse to doing business with the Israelis. A book just published on the life of Charlie Wilson, an American congressmen who befriended Pakistan's General Zia ul Haq in the 1980s, claims that the Pakistani army worked with Mr Wilson and the CIA to scoop up tons of weapons from Israel (captured from the PLO in Lebanon) and channelled them to the *mujahideen* in Afghanistan. “Just don't put any stars of David on the boxes,” General Zia is reported to have remarked to Mr Wilson.

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India and China

No order on the border

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From The Economist print edition

China detains an Indian patrol

Get article background

TRIPS to China by Atal Behari Vajpayee, India's prime minister, seem to be jinxed. In 1979, when he was India's foreign minister, he had to cut short a visit to Beijing when China invaded Vietnam. Now it has emerged that, during a trip to China in June, when he signed a "comprehensive co-operation" agreement, an Indian security patrol was being detained by Chinese troops on the mountainous border between India's north-eastern state of Arunachal Pradesh and China.

The diplomatic flap since this confrontation was leaked in an Indian newspaper on July 24th illustrates the two countries' brittle relationship. A Chinese foreign-ministry spokesman repeated a long-standing refusal to recognise that "the so-called Arunachal Pradesh" is part of India, and said the Indian forces "retreated" after being detained on what he called the Chinese side of the border. India initially tried to maintain the spirit of the Vajpayee visit and responded less bluntly. But this week a government spokesman said that Arunachal's status was a "historical fact that cannot be changed by anyone". India's External Affairs Ministry formally summoned a senior Chinese diplomat in Delhi to complain that the Indian patrol's treatment breached a 1993 "peace and tranquillity" agreement that there would be no aggressive acts when patrols met.

"A little bit of toughness is needed and if that leads to them saying 'no border talks', then fine," says J.N. Dixit, a former Indian foreign secretary, who believes that India should deal robustly when challenged by its dominant neighbour. Such an escalation is unlikely because the main focus of the Vajpayee visit, apart from boosting trade, was to begin to tackle differences on the two countries' 4,000 km (2,500 miles) mostly-disputed border, known as the "line of actual control" (LAC). In the east, China refuses to accept that Arunachal's 90,000 square kilometres (35,000 square miles) were ceded to India in 1913 by the then-independent Tibet, and it has not recognised India's 1975 annexation of the former kingdom of Sikkim. In the west, India claims a remote mountainous area called Aksai Chin (38,000 square kilometres), which China occupied in its 1962 war against India and regards as strategically important. There are also numerous small pockets of disputed territory.

China might recognise India's control over Sikkim next year, having agreed during the Vajpayee visit that a trade route should open on the state's Tibet border. But little progress has been made elsewhere. Maps showing the two sides' perceptions of where they think the LAC should be were exchanged for one largely undisputed area last November. Other maps will follow for more difficult areas. But neither side will give away significant pockets of Arunachal or Aksai Chin. Equally, a trade-off, with the LAC becoming permanent, would not be acceptable to India because it lost Aksai Chin in the 1962 war. Overall, India is in more of a hurry than China to fix the border because it would like to move troops to its more volatile frontier with Pakistan. But China is showing no sign of letting it force the pace and, with Pakistan as a strong ally, is presumably happy to tie down the Indian troops where they are.

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Thailand

A cat and dog fight

Jul 31st 2003 | BANGKOK
From The Economist print edition

Going astray in the land of Buddhism

THE surveillance cameras at the Temple of the Emerald Buddha, Bangkok's holiest shrine and a prime tourist attraction, were not installed to catch pickpockets or vandals. Instead, they are designed to stem a more intractable problem: the temple's exploding population of stray cats. Disenchanted cat owners have taken to abandoning their pets in the temple, in the hope that the monks will take them in. There are now 50-odd strays, soiling the grounds and hissing at visitors. And the temple is just one battlefield in Bangkok's long-running war on strays.

Buddhism, the religion of most Thais, reveres all forms of life. At the very least, that rules out putting down stray animals. Some Thais go further, putting out food, a habit that has been welcomed by Bangkok's stray dogs, now numbering at least 120,000. They create even more trouble than the cats at the Temple of the Emerald Buddha, fouling the streets outside the temple, causing traffic accidents and spreading rabies. Earlier this year, a pack of Bangkok strays mauled an 11-year-old boy, biting off an ear.

The authorities have tried all manner of schemes to control the stray dogs without offending Buddhist sensibilities. Some have been trained as sniffer dogs, others have been sent to patrol Thailand's national parks, while a lucky few have been adopted by American and European animal lovers. The city used to catch strays, sterilise them, and clip their ears as a marker. But King Bhumibol scotched that policy, declaring it cruel.

Instead, Bangkok's mayor has proposed marking sterilised dogs by implanting them with microchips. The king, who has twice raised the problem of strays in his annual birthday address, has a simpler strategy: adoption. He has led by example, taking in many strays, including his favourite dog, Tongdaeng (Copper). He has even written a biography of the fortunate pooch to promote the cause. Royalist-minded Thais snapped up the initial print-run of 100,000 copies within minutes of its release. The cream of Bangkok society has been seen in department stores, fighting over T-shirts emblazoned with a picture of the famous dog. If only they were as keen to obtain an actual stray.

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The forces controlling Iraq

In pursuit of friendlier faces

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From The Economist print edition

Reuters

America and Europe do not yet agree on who or what should control Iraq

HEARTENED by the killing of Saddam Hussein's heirs, George Bush and his aides made a concerted effort last week to put an optimistic face on America's occupation of Iraq. Saddam himself is said to have narrowly escaped one of the increasingly confident raids devoted to his capture. Yet 50 Americans have been killed in combat since May 1st. American commanders say that the frequency of guerrilla attacks may be decreasing, partly because of their efforts to kill or catch the perpetrators. But the attacks have also become more sophisticated, with bombs and ambushes replacing pot-shots.

The Americans hope that more and better tip-offs will help them to cut down the militancy. They are also trusting in their power to persuade ordinary Iraqis that they mean well, and thus, in Mao's formulation, deny the guerrilla fish a friendly sea to swim in. Working against this is the fact that, the more casualties the Americans suffer, the harder it is for them to present a friendly face to civilians.

Politicians in America and Europe draw contrasting lessons from these travails. Some officials in Brussels believe that the unexpected cost of the occupation, in cash and casualties, may persuade Mr Bush to secure a new United Nations resolution on Iraq. Short of such a resolution, several countries, including France and India, have said that they will not participate in any peacekeeping effort. It would also be tricky for NATO, already stretched by its other commitments, to serve directly under the command of one of its own members.

An international military presence is already in Iraq, and forces from more countries are due to arrive in the next few months. But most of the foreign contingents are small. The vast majority of coalition troops are still American: around 148,000 out of a total of 160,000. Moreover, some of the other contributions are being bankrolled by America. More help from outside is needed, if the Pentagon is going to be able to fulfil its plan to send more of its own people home.

But more foreign boots on the ground will not necessarily save Americans from being killed. Although soldiers from other countries may be less vulnerable to attack, the Americans are unlikely to trust them to carry out operations in the most deadly part of the country. This is the so-called Sunni triangle, to the north and west of Baghdad, which is “still a war zone” according to America's top general. America's priority at the moment is to recruit Iraqi police and militia for humdrum security duties, thus freeing its

own troops to concentrate on the rumbling, sometimes lethal, combat operations.

In sum, though the Americans would like to have more help from overseas, they do not want it at the price of a resolution that would restrict the autonomy of their administration. They argue that Resolution 1483, passed by the Security Council in May, should be enough for potential allies. Paul Wolfowitz, the deputy defence secretary, commented on July 29th that some of the stay-aways may just be waiting for the mission to become less dicey.

Although Resolution 1483 gave all the last words to the Coalition Provisional Authority (in other words, the Americans with British help), the UN has been quietly taking on more responsibility. Kofi Annan, its secretary-general, last week spelt out the ways in which his organisation could help. Among much else, he mentioned law reform, training policemen and civil servants, preparing for elections and writing a new constitution. The UN team, led by Sergio Vieira de Mello, is growing.

Best if Iraq runs itself

In any event, no new resolution is likely until the autumn. The trick in drafting one would be to subject the Americans to some sort of accountability, without emasculating their authority: an exercise that could require no less prestidigitation than the original pre-war resolution. But by the autumn, public opinion in Europe and elsewhere may be less hostile to the Iraqi affair. And Iraq may also be closer to some form of legitimate government.

If that were the case, France, India and the rest could portray their involvement as helping Iraq, rather than bailing out the Americans. The Pentagon worries that letting in the UN might somehow slow the handover of power to Iraqis. But if the handover were to happen swiftly, other countries could involve themselves in the exercise, with no loss of face on either side. Iraqis might be pleased too.

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Israel, the Palestinians and America

Sharon gets his way, again

Jul 31st 2003 | JERUSALEM
From The Economist print edition

George Bush listened to Mahmoud Abbas but agreed with Ariel Sharon

AFP

Get article background

ARIEL SHARON is one of George Bush's most frequent and most welcome foreign guests. But this week, as he paid his eighth visit to the White House as prime minister, it was not immediately obvious that things would go his way. Four days ahead of him, Mahmoud Abbas, the new Palestinian prime minister, got his own first taste of a Rose Garden reception, feted by Mr Bush as a leader “of vision and courage”. And Mr Bush listened carefully to the Palestinian leader's litany of complaints: about the “security wall” that is going up in the West Bank, and about the settlements that are not coming down.

On what needs to happen next, however, Mr Bush still seems firmly in the Israeli corner. “Prime Minister Abbas made a public declaration that we would work together to dismantle terrorist organisations,” said the president, with Mr Sharon looking smug at his side. “And that's exactly what's going to happen.”

The Israelis were less comfortable when Mr Bush, in his talks with Mr Abbas, pointedly pronounced their West Bank wall “a problem”. The main problem, American officials explained, was not the completed northern section of the wall, but the planned central section that is to belly far into Palestinian territory in order to encompass Ariel, a Jewish settlement.

Many Israeli advocates of the wall are against this encroachment. But Mr Sharon, who was a late convert to the concept of a physical barrier designed to prevent terrorist incursions, backs the settlers who want their homes to be inside the new perimeter. The building, he said, would continue, though he would “seek ways to ease the hardship on the Palestinians.”

Whether or not that will eventually mean changing the route of the wall, Mr Sharon is not, for the moment, under pressure from Mr Bush. Israel has agreed to release some 550 Palestinian prisoners, removed three roadblocks in the West Bank, and will be taking down a dozen “unauthorised outposts”. These modest moves earned the president's warm approval. Thousands of prisoners are still in jail; lots of roadblocks remain; and building work continues in dozens of settlements with no sign of the freeze required by the road map. But the next move, in Mr Bush's view, is for the Palestinians to make.

Citing the language of the road map, Mr Bush demanded of the Palestinian Authority “sustained, targeted

and effective operations to confront those engaged in terror". Mr Abbas and his security chief, Muhammad Dahlan, had argued that a showdown now with Hamas and Islamic Jihad would be counterproductive. Diplomacy had produced a month of quiet, which was much more than violent Israeli repression had ever achieved. Let us carry on at our own pace and in our own way, they suggested to the president.

But Mr Bush appears unconvinced, and seems to be waiting to see more decisive action by the Palestinian Authority. "The commitment to fight terror...will make it a lot easier to deal with difficult issues, including the settlement issue," he said.

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Anti-terrorism in Saudi Arabia

No tolerance for intolerance

Jul 31st 2003 | RIYADH
From The Economist print edition

The Saudis crack down on suspects and zealots

IN A windowless room in central Riyadh, a row of unsmiling security men sit glued to their screens, watching, through hidden cameras, what goes on in every street of the Saudi capital. At the tap of a finger, they can zoom in on men stepping out of the airport to hail a taxi. And, with British technology only just installed, they can listen to phone conversations, matching them with the recorded voices of terrorist suspects held in a memory databank.

Nothing surprising about such equipment, but it is new to Saudi Arabia, a country barely two months into its own war on terrorism. A year ago, Prince Nayef, the interior minister, was claiming that there were no al-Qaeda cells in his country. But that boast came to an end with the triple suicide bombings in Riyadh on May 12th. To date, three big cells have been unearthed, and almost every day brings new discoveries. The terror network is far more extensive than any had believed.

Cell members are being caught with impressive speed, but new names crop up that no one had heard of. Suspects are adept at concealing themselves. One al-Qaeda member, Turki al-Dandani, who died in a shoot-out last month, is believed to have passed through Jeddah disguised as a woman—which raises problems in a country that forbids male-female contact.

Another disputed area is the use of torture during interrogation. The government claims not to use it. But opposition sources say that dozens of suspects' families have been rounded up to put pressure on the men to surrender.

Words of wisdom

One of the less grisly means of pressure is from religious scholars who visit arrested suspects, to try to make them see the error of their ways. This does not always work. The underground Islamist cells include hardcore militants, far from mainstream Saudi society, schooled in counter-interrogation in the camps of Afghanistan. Convinced that Islam is on a collision course with Christians and Jews, they see America's occupation of Iraq as the latest chapter in a long struggle for Muslim survival. But other cell members are simply frustrated young people who see no future for their country under its present rulers.

The Riyadh bombings had two main effects. They galvanised the government into taking action, and they provoked widespread condemnation of al-Qaeda and its ways. Immediately after the bombings, the Saudis allowed the CIA and the FBI to bring in large teams of investigators. Most of these have since gone home, but the Saudis are now at last sharing almost every bit of information with the Americans.

Belatedly, the government is making a serious effort to control the Islamic charities that have long been a huge source of finance for al-Qaeda: donations overseas now have to be officially approved. This week there was fevered speculation about the blacked-out pages, apparently containing charges against Saudi Arabia, in an American congressional report on the events of September 11th 2001. The Saudis want the charges made public, angrily saying they have nothing to hide.

The boldest Saudi move is in the mosques. There are over 50,000 of them in the country, and most of their preachers are careful to avoid politics. But in the past two months, over 1,000 imams have been removed from their pulpits and brought to Riyadh for “re-education”. This is not quite as Stalinist as it sounds. The notion is to steer them away from preaching confrontation, and to teach tolerance of non-Muslims. To some Saudis this is an insult, a case of the princes doing America's bidding. But others are tired of seeing their country portrayed as a land of hateful zealots, and quietly applaud the move.

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Iranian oil and nuclear power

Will America invoke sanctions?

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Iran, suspected of harbouring nuclear ambitions, fears America's whip

THERE is an American law on the books that authorises sanctions to be imposed on non-American companies that invest in Iranian energy. The law has not, as yet, been invoked. But with a storm of voices, lambasting Iran for its alleged nuclear ambitions and aid to terrorists, gathering force in Washington, the Iranians believe themselves in danger. The likelihood of military action recedes with every American military casualty in Iraq. But the United States, which already stops its own companies from doing business with Iran, could choose to punish other countries that put money into Iranian oil or gas.

According to Japanese officials, the Americans have given warning that members of a Japanese consortium might be punished with sanctions if they sign a long-pending deal to develop Azadegan, a big Iranian oilfield. Richard Boucher, the State Department's spokesman, said recently that this was a “particularly unfortunate time” to be striking deals with Iran, a message that is sure to have been reiterated during bilateral talks on energy that started in Washington on Tuesday.

Some Japanese, particularly in the foreign ministry, agree. They appreciate America's muscle as a deterrent to a nuclear-armed North Korea, and do not want to give the impression that they are indifferent to Iran's nuclear programme—which both the United States and the European Union suspect of being not wholly, or perhaps even mainly, civilian in intent.

But Japanese diplomats are opposed by number crunchers in the economy ministry. They point to the deal's financial size (it may be worth as much as $2.8 billion) and to Japan's quest for secure supplies of energy. Moreover, Iran was advanced $3 billion in loans in return—though neither side would put it that way—for giving the Japanese consortium exclusive negotiating rights. Those rights recently lapsed, but Iran is not expected to start negotiating seriously with anyone else.

Europe's diplomatic efforts to bring Iran into line are aimed at persuading the Iranians to sign a protocol that would allow UN inspectors virtually unrestricted access at very short notice to places where they suspect nuclear activities are going on. On July 21st the European Union's foreign ministers hinted that they might abandon talks on a trade agreement if the Iranians do not sign by the autumn.

But this does not mean that France and Britain, whose distrust of Iran's nuclear ambitions is matched by their liking for its hydrocarbons, will encourage their oil companies to pull out. They may be helped by the Iranians' legendary inability to strike quick deals. For as long as Iran's international standing is dubious, the delay in naming a foreign partner to upgrade the huge oilfield at Bangestan (Total and BP are the frontrunners) may suit the French and British governments. However, nearly five years after negotiations began, and with investment in gas seen as a surer bet, some foreign executives doubt whether the upgrading will ever happen.

There are signs that some influential Iranians, including the head of parliament's energy commission, are coming round to the idea of signing the nuclear protocol. At the weekend, Iran's representative to the International Atomic Energy Agency called on his country to sign up. Some deputies say that parliament could authorise signing in a matter of weeks. But even in the oil ministry, where the presumed consequences would be most benign, there is support for the government's line that Iran deserves something in return: namely, access to the ostensibly peaceful nuclear technology that it is currently denied.

In the meantime, Iran is suffering from the sluggish pace of investment. Its stated target of attracting $16 billion-worth of foreign investment into its oil and gas sector by 2010 looks unrealistic. Even without

foreign pressure, decision-making is chronically slow. Some British officials agree that, were it not for worries over potential military applications, Iran's attempt to meet burgeoning domestic energy demand through nuclear power would make economic sense.

The main problem for the Iranian government is that its energy revenues finance the subsidies, recently increased, that help to keep Iran's restless population under control. If the revenues do not flow in, the reverberations will be felt far beyond the corridors of the oil ministry.

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Iranian justice

They murder journalists

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From The Economist print edition

A shocking story prompts judicial second thoughts

Reuters

Mortezavi: extractor of confessions

THE plan backfired. Iran's hardline judiciary chief tried to get the better of his opponents by asking Saeed Mortezavi, the Tehran prosecutor who ordered the arrest of Zahra Kazemi, a Canadian-Iranian journalist, to investigate her subsequent death in custody. But after pressure from President Muhammad Khatami, Ms Kazemi's death is being probed by one of the judiciary's less flagrantly politicised branches. And Mr Mortezavi, the leader of the campaign to gag Iran's reformist press and jail its stars, has been weakened, with conservatives re-examining his usefulness.

It is now undisputed that Ms Kazemi died as a result of violence done to her during her detention, from June 23rd to 26th. Two questions remain. First, which of the agencies that questioned her—the prosecutor's office, the intelligence ministry, or the intelligence branch of the police—landed the fatal blows? Javad Ismaili, the criminal-court judge in charge of the investigation, is spreading his net wide: members of all three agencies are said to have been among the five people whose detention was announced on July 26th.

Second, to what extent should Mr Mortezavi, who has boasted in private of having secured Ms Kazemi's "confession", carry the can? He has already been named, by a team appointed by Mr Khatami, as one of her interrogators, and a reformist deputy has accused people from his office of beating the journalist. But the most damaging missile was fired by Muhammad-Hossein Khoshvaght, the head of the culture ministry's foreign media department.

On July 23rd Mr Mortezavi blamed Mr Khoshvaght for sowing confusion over the cause of Ms Kazemi's death. The following day, newspapers printed a letter in which Mr Khoshvaght accused the chief prosecutor of pressuring him into announcing that Ms Kazemi had died of a stroke, and of threatening him with prosecution for abetting Ms Kazemi's "espionage". Mr Khoshvaght also indirectly accused Mr Mortezavi of lying to the public about the case. Unless the prosecutor is conspicuously exonerated, it will be hard for judicial hardliners to repose much faith in him again.

Having banned some 80 publications, and jailed more than a dozen journalists, the youthful Mr Mortezavi may have grown too big for his boots. His alleged enthusiasm for threatening the families of suspects as a means of forcing confessions has become an embarrassment. The most famous of the reformist confessors, Abbas Abdi, recently claimed from his prison cell that it was such pressure that had persuaded him to recant.

Ms Kazemi's death has spoiled Iran's innocuously good relations with Canada. In private, the Canadians talk about sponsoring a UN resolution to condemn Iran's human-rights record, something that Iranians, of all stripes, are keen to prevent.

Nobody expects to see Mr Mortezavi in the defendant's stand. In 1998, in an even grislier tussle between Mr Khatami and the hardliners, a presidential team of investigators forced the intelligence ministry to own up to four gruesome assassinations. In return, the president did not insist that justice be done—the senior conservatives who ordered the killings remain free—only that political murder be abandoned as a tool of domestic policy.

This time, there is unlikely to be a great or sudden improvement in the appalling treatment of journalists, which has earned Iran the distinction, conferred by Reporters Without Borders, of being "the biggest

prison for journalists in the Middle East”. But the furore may at least make it harder for journalists to be beaten to death while in custody. That would be another of the barely perceptible advances that have become Mr Khatami's trademark.

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Zimbabwe's cash crisis

Banish the thought of inflation

Jul 31st 2003
From The Economist print edition

Robert Mugabe cannot even print money competently

BAD governments, when they run out of money, print more. But Zimbabwe's government has run out of the ink and special paper needed to print enough notes to keep pace with inflation, currently 365% and rising. Armed police have been deployed to calm the crowds outside banks, where people queue all day to withdraw money. Typically, they are allowed only Z$5,000 ($1.43) at a time.

Because it is so hard to get money out of the bank, no one wants to put it there in the first place. Shops and businesses keep their takings in safes, to have a chance of paying their workers and suppliers. The government blames such “hoarders” for the cash crisis. This week, it unveiled a plan to outwit them.

Within 60 days, said the finance minister, the highest denomination note, the Z$500 bill (worth 14 cents), will cease to be legal tender. Hoarders must deposit their stashes in banks. A new Z$500 bill will be issued, and perhaps even a Z$1,000 bill. Bankers say there is no chance that enough new notes will be ready in time, but the regime does not want to print higher denominations because it thinks this will cause inflation.

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Corruption in South Africa

Just how bad is it, really?

Jul 31st 2003 | JOHANNESBURG
From The Economist print edition

And how energetically is it being tackled?

OPENING their door at dawn, a Johannesburg couple saw a gun-toting gang on the doorstep. Robbers? Just the opposite. The Scorpions, South Africa's elite anti-corruption unit, flashed their warrants, swarmed in and rummaged efficiently through drawers, files and heaps of paper for incriminating documents. The couple put up no resistance, demanding only the right to have their morning bath.

If South Africa is to avoid the fate of so many of its neighbours, corruption must be kept in check. To their credit, the Scorpions have not hesitated to pursue bigger targets than the bleary-eyed couple your correspondent saw them tackle this week. On July 27th, a list was leaked of their questions for the deputy president, Jacob Zuma, who is accused of (and denies) asking for 500,000 rand (now $68,000) from a foreign arms company, Thales, to “protect” it from a probe into alleged kickbacks. He was given until July 31st to respond.

Until this week, Mr Zuma was considered the most likely successor to Thabo Mbeki, the president. No longer. And he is not the only senior member of the ruling party, the African National Congress (ANC), to feel the Scorpions' sting. A former chief whip was jailed this year, as was Winnie Madikizela-Mandela, Nelson Mandela's ex-wife. The defence minister was fined for failing to declare various business interests, and rumours swirl about several others in high places.

Although it is the famous who grab headlines, petty corruption is probably a bigger problem. Most of the Scorpions' investigations involve lowly civil servants who take bribes from firms seeking procurement contracts. In some provinces, particularly those which absorbed former “homelands” (nominally independent countries under apartheid), crooked old habits persist among traditional leaders turned councillors. In the Eastern Cape, the ANC's heartland, 63% of those polled said they thought that most provincial officials were corrupt. The ANC worries that anger at the theft of pensions and other benefits will mean a low turn-out at next year's election.

All this should be kept in proportion, however. Cases of graft are known about largely because the police, newspapers and political parties are free to unearth them. The national prosecuting authority now has over 3,500 staff and a fast-rising budget, worth 950m rand this year. Last week Mr Mbeki authorised a probe into 285 cases of fraud in the department of justice, but the courts and police are broadly free of political meddling. The president says of his deputy's troubles that the “law must run its course”. The Scorpions report an impressive conviction rate of 85% over the past two years, which explains why the unit enjoys huge popular support.

All this is remarkable compared with the rest of Africa. Unlike some other ruling parties, the ANC makes an effort to keep itself clean, regularly announcing that it has sacked a mayor or councillor because of “laziness”—a widely understood euphemism for sleaze. Transparency International says outsiders' perceptions of South Africa remain pretty good, though allegations surrounding a big arms deal (of which Mr Zuma's problems are a small part) have not helped.

The danger, however, is that positive views can quickly turn negative. Some corruption researchers believe that countries are typically seen as mostly clean or mostly not, with little space in between. Although a recent Gallup poll of 41,000 people in 47 countries found lowish concern over corruption in South Africa's courts, customs, business licensing, and so on, people's worry is swelling. The poll found that 51% of South African respondents expected corruption to grow worse fairly soon. They were among the most pessimistic of all the people asked.

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Turkey

A revolution, of sorts

Jul 31st 2003 | ANKARA AND ISTANBUL
From The Economist print edition

Getty

Taming the generals, and knocking at Europe's door

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THIS week Turkey's government, led by Tayyip Erdogan, put two hugely potent bills through parliament. One should dramatically weaken the power of the generals, who, as proclaimed guardians of the country's secular constitution, have long been accustomed to interfere in politics, thereby mocking Turkey's claim to be a thorough-going democracy. The other bill offers a qualified amnesty to the rump of a Kurdish guerrilla force that, until a ceasefire in 1999, was fighting a vicious war in the country's south-east, which in turn was partly responsible for Turkey's dreadful record of human-rights abuse. Both bills are the latest striking signal that the country is determined to revamp its entire system of governance in order to qualify, some day, for membership of the European Union.

But the road towards that goal remains very rocky. A slow realisation that a new world order has emerged since America's invasion of Iraq, together with the approach of a crunch moment in a year or so in the long campaign to join the EU, means that the government is still facing one of the hardest tests since Kemal Ataturk replaced the Ottoman sultans some eight decades ago with his version of a secular and authoritarian state that has more or less survived until now. But the legacy of Ataturk, the great moderniser, has itself become a brake on continuing modernisation and must steadily be refashioned or discarded—a notion that would have been deemed sacrilege barely a decade ago. Indeed, it remains a crime to insult his name.

Three new challenges stand out. First, to qualify for EU membership, Turkey must still implement a bevy of drastic reforms, including those enacted this week, entailing changes in its approach to individual rights that will alter the very nature of the bossy Turkish state. Second, linked to that change, a new relationship between government at the centre and Turkey's large Kurdish minority may require a redefinition of Turkish identity and may even lead in the end to an unprecedented measure of devolution, though few people dare to contemplate it yet (see article). Third, the upheavals next-door in Iraq mean that Turkey must rethink its role as a regional power broker.

The most immediate foreign-policy question for the government is whether to send Turkish troops into Iraq under American overall command—on the understanding that they would have to help keep the peace in the south and not in Kurdish northern Iraq where they would be unwelcome. The Turkish

government would much prefer to go in under a UN umbrella. Yet, if that is not (yet) available, it would be loth to turn down the chance to display its readiness to help Turkey's American allies and to repair relations that were sorely damaged, just before the recent invasion of Iraq, when Turkey's parliament refused to give permission for American troops to use eastern Turkey as a launch-pad for a second front. In any event, Turks as a whole have remained strongly opposed to American policy over Iraq and many of Mr Erdogan's Justice and Development Party, as well as the opposition, share those feelings.

Since the government took office last November, it has on the whole done quite well, despite some hiccups. A big advantage over its predecessors, many of which were rancorous and fragile push-me-pull-you coalitions, is that it has a huge majority in parliament, a good four more years in which to make wrenching economic, human-rights and judicial changes, and an unusual font of goodwill at home and abroad. But it is inexperienced, torn by conflicting pressures (notably in foreign policy), and already has a squad of trouble-makers in its ranks. In addition, Turkey's economy, though recovering pluckily from a financial crash two-and-a-half years ago thanks partly to the watchful eye—and massive loans—of the IMF, is still very frail.

Secret Islamist schemes?

Moreover, the ruling party's Islamist roots, albeit disavowed by its current leaders, still make many Turks queasy, especially in commercial and liberal-leaning circles in Istanbul, their greatest city. Many still suspect that Mr Erdogan has a “secret Islamist agenda” which he would like to enact once he has consolidated his hold on the state, pushed the generals into the shade, and got the cover of the European Union for protection. Such worries make many of the country's generals even twitchier; indeed, it is not yet certain they will accept the trimming of their power.

The generals' two biggest bugbears have long been Muslim fundamentalism (from which Mr Erdogan's party is now so keen to distance itself) and Kurdish separatism that might, if it grew stronger, prompt the break-up of the once-much-grander Turkish state. Many generals are particularly nervous about the emergence of a Kurdish quasi-state next-door in Iraq and the dawning realisation of Turkey's own Kurds, probably at least 14m-strong in a total population of nearly 70m, that they may soon be able to enjoy much greater freedom thanks largely to the EU's insistence on minority rights.

This week's clutch of reforms, the seventh in a series of so-called “harmonisation packages” designed to bring Turkey into line with its would-be EU partners, would, among other things, revamp the powerful National Security Council, where the generals have predominated, and make it an entirely advisory body.

The previous government started enacting the EU harmonisation bills, but Mr Erdogan's team has sharply raised the tempo. In parliament's next session, it may even have to amend chunks of the Turkish constitution, still largely inspired by Ataturk and last refashioned at the generals' behest in 1982. This, too, would mark a seismic change.

The government has already pushed through a string of laws that should much improve prisoners' rights—and make it far less likely, in the first place, that Turks are prosecuted for crimes of self-expression which have habitually been deemed by judges to abet terrorism or undermine the secular state. Arguing, for instance, for Kurdish language rights has often been considered to breach laws forbidding Turks from encouraging the break-up of their state. On that account alone, thousands have, over the years, been jailed.

The biggest blot on Turkey's human-rights record has been the prevalence of torture in prisons and police stations. Foreign and domestic human-rights watchers are cautiously hopeful, thanks to a variety of laws included in the packages already passed, that this dire practice will gradually cease. But the mantra, intoned by politicians, diplomats and human-rights campaigners alike, is that laws are one thing, implementation quite another. So far, very few miscreants have actually been brought to book. Fundamental change on the ground is not yet plainly evident.

Words versus deeds

Indeed, the panoply of repressive laws is so far-reaching and complex that even the best-informed politicians and lawyers find it hard to identify which laws and articles have been swept away and which could still be invoked. Moreover, much still depends on the regulatory bodies—the broadcasting

watchdog, for instance—and the judges and prosecutors who oversee and interpret the supposed rules.

Again and again, liberal-minded Turks inveigh against the enduring “mentality of the state” and the reluctance of the old guard—bureaucratic, judicial and military—to respect individual rights, whatever the law may say. “The culture of impunity [for state organs] and the culture of denial [of past wrongs] is still so strong,” sighs a wary western diplomat. Many ordinary Turks think it doesn't matter much what the law-book says: if the generals and judges are determined, they can still always get round it. “It's not the rule of law, it's still the law of the ruler,” says another sceptical foreign observer.

Corruption on a colossal scale is the most obvious manifestation of this age-old abuse of power. It may be the single biggest reason for the relative failure of Turkey to keep up with countries, such as Spain, that had a similar per capita GDP half a century ago. Mr Erdogan's party was elected (with 34% of votes cast, almost twice as many as its nearest rival got) largely because it was thought to be clean. Its ability to govern alone, along with the prospect that the usual merry-go-round of ruling coalitions sharing out patronage and spoils has stopped, has raised hopes that it will stay clean, though some doubts have begun to creep in. The recent setting up of a parliamentary committee to investigate corruption is a good sign.

Government ministers know that, even if, as is fairly likely, the European Union's monitors issue a laudatory progress report this October, it will be even more crucial to Turkey's chances of joining the club that the array of new laws enacted in the past year is seen to be vigorously implemented in the ensuing year. The Turks' high hope is that, provided further progress is plain, a date will be given so that formal negotiations to join the EU may start at the very end of next year.

How soon after that, realistically speaking, might Turkey actually join? “Maybe in three, five or eight years,” says a minister. The eight years of negotiations that Spain needed is often mentioned. So mark possible entry down as 2015—with a lot of luck. But before that target can be reached, a sea-change in the national psyche has to take place. Recent changes, at least on paper, are dramatic. But they are only a start.

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Turkey's Kurds

Hope versus fear

Jul 31st 2003 | DIYARBAKIR
From The Economist print edition

Will the Kurds of south-eastern Turkey become happier—as Turkish citizens?

Get article background

THE Kurds of south-eastern Turkey, like their fellow citizens of all ethnic stripes across the country, have already experienced an enormous change, largely for the good, in the past few years. Partly that is thanks to a ceasefire since 1999 between the Turkish army and the insurgents of the Kurdistan Workers' Party, better known as the PKK but recently renamed the Kurdish Congress for Freedom and Democracy, or KADEK. Last year the lifting of the state of emergency that had prevailed in most of the south-east enabled many rural Kurds to travel freely to and from their villages: according to a human-rights campaigner in Diyarbakir, the Kurds' biggest city, nearly a quarter of the 3,400-plus Kurdish villages that were forcibly evacuated during the war have started to be resettled.

AP

Waiting for first-class citizenship

But several newer factors have raised the Kurds' morale. One is the new Turkish government's apparent determination to meet the European Union's human-rights criteria as a prerequisite for Turkey to start negotiating to join the club. The second is the consolidation of a quasi-independent federal Kurdish state across the border in northern Iraq. And the third is the prospect of an amnesty for many of the PKK guerrillas who have taken refuge in the mountains in the borderland of northern Iraq.

On the ground, however, the old fear and suspicion persist. Displaced Kurdish villagers on the edges of towns like Diyarbakir, where some 300,000 of them live in squalor with few jobs and almost no welfare to support them, have yet to enjoy better times. And human-rights campaigners, such as Sezgin Tanrikulu of the Diyarbakir Bar Association, say they have yet to see a new attitude among police and prosecutors who still, he says, harass and detain people deemed to stir up Kurdish sentiment. “Great new laws, zero implementation,” he says. “There's no control over local bosses...and there's been no change so far in the state's mentality.”

Moreover, conditions attached to the proposed amnesty mean that PKK insurgents thought to have committed acts of violence will not qualify for clemency. There has been no hint so far that Abdullah Ocalan, the PKK leader sentenced to death in 1999 (the term was commuted to life), will be freed any time soon.

They're still getting nabbed

Diyarbakir's mayor, Feridun Celik, who belongs to a pro-PKK political party which has recently changed its name from the People's Democratic Party (known as Hadep, which was banned) to the Democratic People's Party (known as Dehap), says that 600 of its people have been detained this year. But the fact that some 30 towns in the south-east have mayors who belong to the party shows that it is allowed a measure of power and freedom.

Politicians in Ankara, Turkey's capital, point out, correctly, that most Kurds are well assimilated into Turkish society and do not seek to express the Kurdish identity beloved of Dehap and the PKK. Many top Turks, including past prime and foreign ministers, are or were Kurds by blood.

Moreover, it is true that only a minority of Turkey's 14m-odd Kurds vote for Kurdish parties. Hadep (before it became Dehap) won 60% of the votes in the last election in Diyarbakir and got a quarter of them in the 20 eastern provinces peopled predominantly by Kurds. But across the country, at least three out of four Kurds voted for non-Kurdish parties, including, in growing numbers, the ruling Development and Justice Party.

But this, as Kurdish activists argue, does not justify the abuses of state power inflicted on those among the sizeable minority who have argued, non-violently, for Kurdish language and cultural rights. Last month, a famous singer was detained for a week for singing a provocative song—in Kurdish. And it is still illegal for a Kurd to register his child with a Kurdish name.

On paper, many of these restrictive laws have already changed. The recent removal of a catch-all article in the penal code now allows anyone to argue peacefully even for separatism, says a senior Turkish diplomat. “Today, the non-violent advocacy of Kurdistan is legal—in theory,” says Emin Sirin, an MP in the ruling party who is on parliament's foreign-affairs committee. “Turkey should regard Kurdistan as the United Kingdom regards Scotland,” says Faruk Demir, of the Centre for Advanced Strategy, a think-tank in Ankara. “Twenty years ago nobody officially even accepted the existence of a Kurdish identity or people,” marvels a leading broadcaster in Istanbul. Such relaxed public discussion of the Kurdish issue was rare even a few years ago.

So attitudes are changing—on both sides. Both the PKK/KADEK and Dehap, which tends to echo the fighters' latest views, insist that they now seek only cultural, linguistic and general human rights for Kurds. “Forget about federalism [within Turkey],” says Diyarbakir's Dehap mayor.

Maybe the militant minority among Turkey's Kurds, once they feel no longer treated as second-class citizens, will fit happily into a unitary Turkish state. But if peaceful and public discussion of such dangerous notions as a Greater Kurdistan becomes allowable, as it must do if Turkey is to come closer to joining the EU, who knows what a distant constitutional future might hold? That unanswered question is precisely what still rattles the Turks.

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The Czech Republic

A government in trouble

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The Czechs' prime minister holds on

THE loss of even one MP matters greatly to a government with a one-seat majority in parliament. Hence the dismay when Josef Hojdar, a Czech Social Democrat, said last week that he was leaving the party's parliamentary caucus, though not the party itself, to vote as he wanted in future. His move, in protest at government proposals for spending cuts, has cost the ruling centre-left coalition its majority on paper in the lower house, and raised doubts over planned fiscal reforms needed to prepare the Czech Republic for euro-zone entry later this decade. It may also, by weakening the centre-left, spur an eventual realignment in national party politics, strengthening both the right and the Communists.

At the very least it means more headaches for Vladimir Spidla, the Czech prime minister. He claimed last week that the coalition government formed by his Social Democrats and two smaller parties, one centrist and one liberal, could still survive intact until 2006, the end of the current parliament's four-year term. But he cannot always control his own party, let alone the parliament. He could not, for example, unite the Social Democrats behind a single candidate when parliament elected a new state president in February, with the result that a right-wing opposition leader and former prime minister, Vaclav Klaus, scooped up the job vacated by Vaclav Havel. (Mr Havel's recreations in his well-deserved retirement included attending a 60th birthday party in Prague at the weekend for a British musician, Sir Mick Jagger.)

AP

Spidla needs a roof

The challenges to Mr Spidla's authority, from inside and outside the party, are sure to intensify now that his position has weakened further. The biggest opposition party, the right-wing Civic Democrats, has already threatened a vote of no-confidence for September.

Mr Spidla might hope to find new friends and partners on the right or the left. Many in his party still look back nostalgically to the alliance with the Civic Democrats that kept the Social Democrats in power from 1998 to 2002. Others would prefer co-operation with the country's unreformed but increasingly popular Communist Party, creating a strong new left-wing block. The Communists are the third-biggest party in parliament. But by steering his party very far to the left or the right Mr Spidla would risk splitting it, perhaps fatally. Its right wing would not countenance an alliance with the Communists, any more than its left would welcome renewed ties with the Civic Democrats.

That leaves Mr Spidla the option of trying to muddle through the next three years with a weak government in an ill-disciplined parliament. Many think he will do just that, helped by constitutional rules making it difficult to dissolve the parliament. It will be terrible timing for such an adventure. The Czechs are bracing themselves to join the European Union next year. They need a strong government to defend their interests and reform public finances—not a weak government concerned mainly with its own survival.

Mr Spidla's efforts to get the country ready for euro-zone entry in five to eight years' time include proposals for broad-based if modest spending cuts, and rises in some indirect taxes intended to cut the budget deficit from more than 6% of GDP last year to a planned 4% by 2006, just above the euro-zone ceiling of 3%. This was the legislation that upset Mr Hojdar, a left-winger from a poor region of the north, when it survived a first reading last week. The real fight will come as second and third readings approach in September: Mr Hojdar's revolt is a foretaste of the trouble Mr Spidla will face from trade unions,

Communists and left-wing Social Democrats, if he sticks to his guns.

The Social Democrats' opponents are surveying the confusion with relish. A splitting or weakening of the party, scattering its voters to the right and the hard left, would suit the Civic Democrats and the Communists alike. The latter would hope to strengthen their grip on the left, the Civic Democrats to acquire fresh appeal as the party for all anti-Communists. As for Mr Spidla, sniffs one Czech commentator, history may place him among the “unfortunate” politicians: those who mean well but cannot command.

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Europe's trade-marks

Protecting names

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From The Economist print edition

The European Union's list of sacrosanct trade names may not fend off imitators

WHAT'S in a name? For Europe's farmers the short answer is money. The European Union is preparing a list of some 35 different foods and wines which it wants protected by the World Trade Organisation. If the EU gets its way, American producers will no longer be able to call their sparkling wines “champagne”: that name will be reserved for producers from the Champagne region of France; “parma ham” will actually have to come from around Parma, in Italy; sherry from near Jerez in southern Spain; and so on—and on.

The EU says that its campaign for “geographic indicators” is all about quality assurance and consumer protection. It argues that if European farmers are to be weaned off their trade-distorting subsidies, they must be encouraged to become niche producers focusing on quality rather than quantity. Protecting the names of traditional European products is, they argue, crucial to this endeavour. It also ensures that consumers will not be fobbed off with inferior imitations.

Nonsense, respond furious farmers and trade negotiators from North America and Australia. “Geographic indicators” (GIs), they say, are just a new form of protectionism. European immigrants to the new world brought things like Cheddar cheese and Gorgonzola with them, and they have become generic terms. Besides, the whole process risks absurdity. Will the Europeans one day insist that frankfurters can only be made in Frankfurt?

Both sides of the argument may be missing the point. For the evidence suggests that GIs can anyway be counter-productive. A bilateral agreement between Australia and the EU in 1994 saw the Australians agree to stop using the names of French regions like Burgundy or Chablis to describe their wines. The deal was the making of the Australian wine industry. Relying on their own regional names like Coonawarra and Barossa, and stressing grape varieties like Chardonnay and Shiraz, the Australians have built the world's most dynamic wine industry. This year, for the first time ever, Australian wines will outsell the French in both Britain and the United States.

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French cuisine

The rise of the picnic

Jul 31st 2003 | PARIS
From The Economist print edition

Is formal dining giving way to faster but still fanciable food out-of-doors?

CRADLE of formal bourgeois dining, Paris is in the grip of an outbreak of culinary informality. Or so the upmarket French women's press would have you believe. “The picnic is becoming gentrified,” declares *Madame Figaro* magazine. Even *Le Monde* is convinced. “The picnic, it's so chic”, chirped a recent headline.

An upper-class English ritual traditionally confined to rural French life, the picnic has been rebranded. Smart shops, such as Geneviève Lethu, report soaring sales of picnic hampers this summer. Veuve Clicquot, a champagne brand, has launched a line of picnic-sized mini-bottles. Alain Ducasse, a three-Michelin-starred chef, has just unveiled a new range of upmarket picnic “lunch boxes”, containing such delicacies as *sandwich pain aux raisins*, *chèvre frais*, *copeaux de fenouil et pulpe d'olive*. “The big question in our lives”, says the publicity for Mr Ducasse's line, “is how to be at the same time a hedonist and in a hurry.”

The spread of picnic-style dining can in part be explained simply by an unusually warm summer. Under its Socialist mayor, Bertrand Delanoë, the city has also become more tolerant of people sitting on the grass in parks and public spaces, a one-time taboo. Indeed, this summer, the mayor has turned the right bank of the Seine once again into “Paris-Plage”, a faux-beach complete with parasols and sand.

Most important, though, many young Frenchwomen, who still do the bulk of the cooking, not only work more and have less time but have missed out on learning the traditional art of cooking, thanks to a mix of education, geographical mobility, and the working lives of their own mothers. “The direct transmission of culinary expertise from generation to generation has been cut,” explains Claude Fischler, a sociologist of food at the National Centre of Scientific Research.

In a post-feminist age, the young Frenchwomen who readily swap the business suit for the apron still want to entertain. They just need more props and tools than their grannies did. Hence the popularity of upmarket ready-made meals, and a recent explosion of cookery books with such titles as “Quickly made, quickly ready”, “Lunch in the garden”, or “Our grandmothers' good recipes”, not to mention television series and a dedicated cookery channel. Even British made-simple cook-books, from Delia Smith to Nigella Lawson have been selling like hot cakes—in French.

A checked cotton table cloth, a bottle of wine, a *baguette* or two, a slice of *terrine de foie gras de canard*: liberation from the shackles of formal entertaining, or the loss of a cultural tradition? Either way, the French picnic is certainly, er, no picnic.

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Charlemagne

The tower of babble

Jul 31st 2003
From The Economist print edition

The curious cabalistic language of those who run the European Union

FOR all the lip-service that the European Union pays to transparency, the fact is that the diplomats, bureaucrats, journalists, lawyers and lobbyists who make up “Brussels” are part of a club. The point of a club is to exclude outsiders. And a classic way to do that is to keep generating baffling new jargon which only insiders can understand.

All governments deal in jargon, but the European Union may be the world leader. Its key strategy, honed over many years, is to avoid calling anything by a name that might let an outsider guess what is being talked about. Three forms of code are particularly important: acronyms, place names and numbers. In a national bureaucracy, an informed layman with a talent for crosswords can swiftly decode an acronym. The EU, however, puts all its acronyms through a sort of linguistic Enigma machine, often using English acronyms in French documents and vice versa. Thus the most important outfit in Brussels is Coreper (the Comité des Représentants Permanents), where the “perm reps” (that is, ambassadors) of the countries in the EU do battle over various knotty political and legislative issues.

You might argue that the acronym problem is the unavoidable consequence of a multilingual environment. But probe a little further and the suspicion grows that any confusion is entirely intentional. Coreper is split into two groups: Coreper 1 and Coreper 2. The natural assumption might be that Coreper 1 is the more important body. Wrong. Coreper 2 is where ambassadors meet; Coreper 1 is for mere deputies. Some of Coreper's rituals and names are reminiscent of the quirkier sort of London club. At Pratt's, near *The Economist* in London, the servants are always called “George” or “Georgina”. Similarly the senior civil servants working for Coreper 2 are always referred to as “Antici”, after the Italian civil servant who first did the job; their counterparts in Coreper 1 are always, for similar reasons, called “Mertens”.

Naming jobs after long-gone civil servants is one way of keeping outsiders guessing. But the EU's most ingrained habit is to name policies after previous meetings. A typical EU briefing might contain a sentence like: “At next month's Gymnich, the ministers will discuss furthering the Lisbon agenda, applying the Copenhagen criteria and expanding the Petersberg tasks.” Translation: “Next month, EU foreign ministers will have an informal meeting, which is called a Gymnich after the first such meeting in a German castle of that name in 1974. They will discuss promoting liberal economic reforms, known as the Lisbon agenda after a summit in Portugal in 2000 where that topic was discussed. They will also examine whether countries asking to join the Union have met the basic political conditions (the rule of law, the protection of human rights and so forth) known as the Copenhagen criteria, after a summit in the Danish capital where they were spelt out in 1993. Another item on the agenda will be whether to expand the scope of military operations that the EU can undertake; these are called the Petersberg tasks, after yet another meeting at a hotel of that name in Germany.”

Calling policies after place names is baffling enough. But if the EU needs to make matters even murkier, it can resort to numbers. Some of its biggest decisions are, for example, made by the 133 committee and the 36 committee—named after Articles 133 and 36 of the Amsterdam treaty. The 133 holds closed-door meetings every Friday to discuss trade policy; the 36 discusses justice and policing. If the EU's proposed new constitution ever comes into force, these article numbers will change, giving rise to the delicious possibility that the committees will keep their old names, so rendering their functions totally indecipherable.

Every now and then somebody in Brussels begins to feel a little self-conscious about all this obscurity and suggests that perhaps the EU should be made easier to understand. This is known as “transparency”—despite brave efforts to call it the “Birmingham process”. Some tentative moves have been made in this

direction. Traditionalists still lament the decision to ditch the practice of numbering departments of the European Commission (DG1, DG2 etc) and instead to call them painfully obvious things like “competition” or “trade”. Yet there are limits to how far this practice can go. At the recent convention on Europe's future, some radicals suggested that European commissioners should be called European ministers, since this is a term more readily understandable to ordinary people. But since many such folk might balk at the idea of European ministers, it was deemed safer to go on calling them commissioners, a name that sounds reassuringly like the doorman at a smart hotel.

Transparency be damned

In any case, commissioners are not exactly like government ministers. That underlines a genuine problem with transparency. Even where the EU gives a policy or a process a descriptive name rather than an acronym or number, the process involved is often so unique to the EUthat its title is still entirely uninformative. Take “comitology” and “co-decision”: the former is the term for the rules governing the hundreds of EU policymaking committees, many of which have different roles and voting procedures; the latter describes those policy areas where the European Parliament jointly makes policy with the ministers of national governments. Any Brussels insider can safely use these sacred terms in the presence of an out-of-towner, confident that he will still be greeted with a blank look.

For all the talk of “getting closer to the people”, that is how many Brussels insiders like it. Like philatelists or train-spotters, the EU's professional followers form a community bound by a shared interest in something that outsiders find both boring and baffling. If you enjoy long lunches discussing “the hierarchy of norms”, “the collapse of the pillar structure”, “the open method of co-ordination”, “the sole right of initiative” and the use of “vertical restraints”, then Brussels is the place for you.

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Living standards

Sweat and cheers

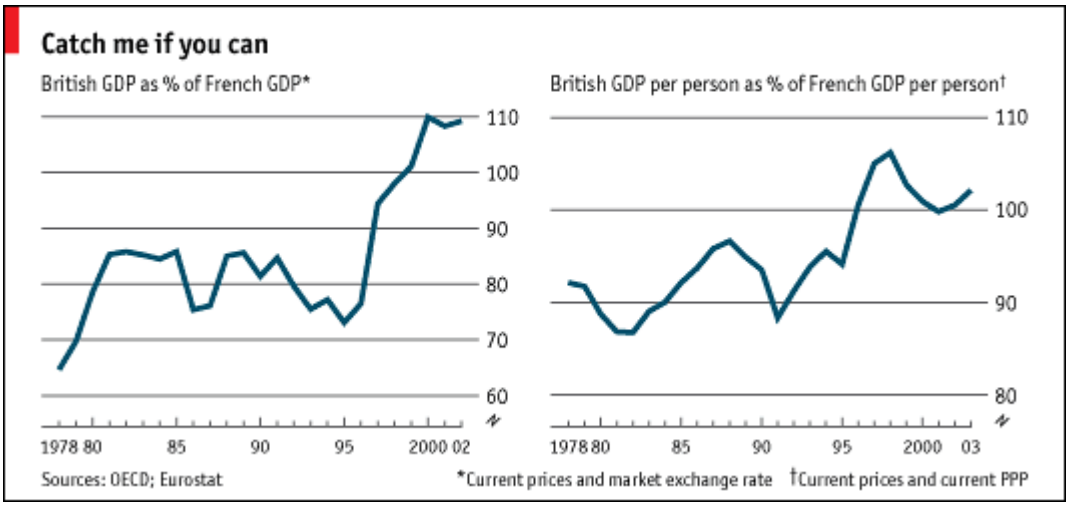
Jul 31st 2003
From The Economist print edition

Britain has caught up with continental Europe, but only by working more

AS THE beach beckons, Britain's economic outlook has clouded over. Growth has been lacklustre in the first half of the year and rising taxes have snipped at pay packets. Households have reacted by going even more heavily into debt, arousing worries that the consumer boom will end abruptly. To cap it all, the pound is much weaker than it was a year ago against the euro.

So does all that gloom make Britain once again the poor relation of Europe? In recent years, the strength of the pound has let Britons swagger as they holidayed on the continent, where three-quarters of foreign trips are made. Their number swelled by 40% between 1997 and 2002. At home, consumers could go bargain-hunting thanks to cheap imports.

The strong pound also gave a lift to Britain's international position in the global league tables as its GDP was revalued against other European economies. Britain and Italy had been neck and neck ever since Italy cheekily grabbed fifth place (mainly because of a new estimate for the black economy) in the mid-1980s. The ignominy of *il sorpasso* was finally expunged in 1997. Two years later Britain overtook France to capture fourth place—an accomplishment much trumpeted by Tony Blair. In 2002 the British economy was almost a tenth bigger than the French economy.



That ranking is now in jeopardy because of the fall in sterling against the euro. In the first seven months of the year the pound has on average been worth €1.46—just enough to keep Britain ahead. But if it were to stay around €1.40 for the rest of the year, France would probably just squeak past, despite Britain's predicted higher growth rate.

But using market exchange rates to compare different countries' GDP can be misleading. A sounder method is to use purchasing-power parity (PPP), the exchange-rate that equalises the cost of a common basket of goods and services in two countries. Comparing GDP this way, says Paul Schreyer of the OECD, a Paris-based international think-tank, France and Britain have been virtually the same size since 1996.

Much the same is true of GDP per head, the most common measure of living standards. According to forecasts for 2003 by Eurostat, GDP per head (using PPP) will be 2% higher in Britain than in France. Britain has also inched ahead of Germany and Italy. Although some smaller economies like the Netherlands and Denmark have higher living standards, Britain is now above the average for the

European Union.

This reflects an underlying improvement in Britain's economic performance over the past two decades, after relative decline during most of the post-war era. Since the start of the 1990s, Britain has been growing at an annual rate of 2.3%, compared with 1.9% in France, 1.5% in Italy and 1.3% in Germany. This is less because Britain has done well, more because the other economies have slowed down.

Strikingly, Britons have to work more to achieve the same living standards. The most recent figures—for 2002, when GDP per head was almost identical in Britain, Germany and France—showed a big gap in the amount of output produced per hour worked. In France, hourly productivity was a third higher than in Britain; in Germany it was a quarter higher. There are two main reasons for this shortfall. British workers are equipped with less capital. And overall efficiency is lower, mainly because of a less skilled workforce.

Less inspiration means more perspiration. A bigger chunk of the population is in work: 72% of those aged 15-64 compared with 63% in France. And British workers put in more hours a year than their European counterparts—on average 10% more than French workers.

Are other Europeans better off with their greater leisure? Not necessarily. Only if they can choose between work and fun. “In most European countries people don't have that choice because of restrictive labour markets and high taxes on employment,” says Bart van Ark, professor of economics at Groningen University.

Britain cannot rely on greater labour intensity indefinitely, especially once continental competitors start freeing their labour markets. For all the familiar signs of British economic frailty that are now making headlines, such as demand driven by consumption rather than investment, the biggest long-term worry is a different one: whether productivity growth, troublingly weak in the past few years, can revive.

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Politics

A question of trust

Jul 31st 2003
From The Economist print edition

The Kelly inquiry will prove uncomfortable for all involved

THE stakes could hardly be higher for Tony Blair and his ministers in the judicial inquiry into the death of David Kelly, the government's expert on Iraq's arsenal, due to begin on August 1st. One apparent victim has been Alastair Campbell, the prime minister's communications chief and most powerful confidant, who wants to leave his job once the inquiry is over.

On the general issue, of exaggerating the available intelligence about the threat from Iraq, cracks in the government's defence are already showing. Lord Hutton, an appeal-court judge with a reputation for thoroughness, will be able to go more deeply than parliament's foreign affairs committee managed, in the only investigation so far.

The political director of the Foreign Office, Peter Ricketts, told the MPs' inquiry that the government's now discredited claim that Iraq could deploy weapons of mass destruction within 45 minutes had been "cleared through" the Joint Intelligence Committee. Later he said that it had "taken ownership" of the September intelligence dossier. What do these mandarin circumlocutions mean? One former intelligence official predicts the Hutton inquiry will force ministers to admit that they played a larger part in the presentation of the intelligence dossier than they have so far been willing to acknowledge.

On the particular issue of Mr Kelly, the first charge is that the defence ministry leaked his name. Its behaviour certainly looks odd, but the government will argue that Mr Kelly's identity was bound to emerge eventually, and trying to keep it secret would have been pointless. Mr Kelly was well known among specialist correspondents, and had widely expressed to them his concerns about the government's misuse of intelligence.

The big mystery is what happened once Mr Kelly was outed. His performance before the foreign affairs committee does not stand up to examination. His evidence was at best evasive, at worst misleading, in particular about his conversations with three BBC journalists. Why? Did the government threaten him? Anything that Lord Hutton uncovers about official pressure on this previously blameless civil servant will look bad in the public's eye.

The BBC itself has also some reason to worry. Its journalist Andrew Gilligan went significantly further in attacking the government's supposed misuse of intelligence than two other BBC correspondents, who had also spoken to Mr Kelly. Mr Gilligan's notes may show if his own story was "sexed up".

But even if he reflected Mr Kelly's views accurately, the story's presentation and the BBC's failure to give Downing Street a fair chance to deny it leaves the corporation vulnerable to criticism. Mr Gilligan's evidence to the foreign affairs committee, which branded him as "an unsatisfactory witness" has not yet been published. But he can expect an even tougher examination by Lord Hutton.

So far, the government has been the loser in the battle for public opinion. Mr Blair confirmed this week that his "appetite" for power is undiminished and that he wants a third term in office. But he must first regain public trust. Treacly new pictures of his home life in *Marie Claire*, a women's magazine, suggest that his circle still yearns for a kind of publicity that outsiders find increasingly repellent.

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Silly season

Monstrous

Jul 31st 2003 | INVERNESS
From The Economist print edition

Bad news is no news for Nessie devotees

EVERY year, in spring or early summer, something odd happens on the shores of Loch Ness in northern Scotland. Somebody says they saw something strange in the water; there may even be a picture of an indistinct blob. Editors love this sort of thing, as the newsless holiday season approaches. And round Loch Ness, it all fuels a thriving tourism industry.

This year, it was a bone found on the lochside. A fossilised one, unfortunately, but definitely from a plesiosaur. This aquatic long-necked dinosaur, monster-watchers say, may be what lurks in the 750-foot depths of the loch. Never mind that the freshwater loch is only 12,000 years old, and that the seawater plesiosaurs died out 65m years ago.

The really bad news came from the BBC, which has just trailed a load of expensive sonar equipment over every inch of the loch and proved, in so far as such a negative can be proved, that there is nothing mysterious there. They also did some telling experiments in the psychology of perception, showing how wishful thinking can lead people to delude themselves that a piece of driftwood is exciting.

The end of monster tourism? Not at all, says Donald Skinner, who admits that 99% of his customers at the Loch Ness Lodge Hotel hope to take one of those blurry photos. “For every negative report, there is a positive one,” he says. “It will go on forever, until they maybe drain the loch.”

No kidding. Next week, Werner Herzog, a film maker, arrives to start on an epic about Nessie. Sceptics will despair: Zak Penn, author of “X-Men 2”, is the scriptwriter. Like Elvis, legends never die—especially when they are profitable.

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Dumbing-down

Mind games

Jul 31st 2003
From The Economist print edition

Dumbed-down Britain? You would be stupid to believe it

WHAT a difference a war with the government makes. Last week, the *Daily Mail* was celebrating the BBC's “superb broadcasting” and “unrivalled contribution to our culture and sense of nationhood”. Could this be the same newspaper that, in April last year, lamented the “relentless fall in standards” at the “dumbed-down” corporation, and called for the abolition of the licence fee?

In peacetime, an array of critics regard the BBC as a particularly pernicious example of a dismal trend: the collective lowering of the British brow. Accusations of dumbing-down are also regularly levelled at museums, universities, and publishers. The culprit in each case is the same: market forces, which, supposedly, force the lowest tastes on to everyone. Only regulation and subsidy can save us from mass stupidity.

All this is fine, apart from the facts. There is little evidence that people are losing their appetite for upmarket mind-food. On the contrary, demand for demanding ideas, challenging talk, good writing, and high-brow sights is up; so is the culture industry's ability to deliver them. With the important exception of the newspaper business, the general drift is towards seriousness, not away from it.

Take the growing popularity of museums and galleries, where visitor numbers increased from nearly 23m in 1997-98 to almost 30m last year. According to MORI, a polling group, 45% of people go at least once a year, compared to 31% in 2000. Since the abolition of entrance fees for national collections in 2001, total visitor numbers at the big ones have doubled.

Literary festivals are growing, too, which suggests that people are willing to pay for their culture. The British Council listed 156 this year, ranging from huge events like the Hay-on-Wye bookfest to “Humber Mouth”, a literary gathering in Hull. Most of the big festivals have largely replaced the traditional fare of self-important authorial readings with discussions and debates. Partly as a result, they are pulling in larger and more youthful crowds. Hay-on-Wye's spring shindig attracted 25,000 people and is growing by 12% a year. Its Cheltenham counterpart sold more than 55,000 tickets to individual events and took in £275,000.

That growing success, naturally enough, brings the accusation that literary festivals have dumbed down. Certainly, the most popular ones are increasingly dominated by personalities whose reputation has less to do with their writing than with their exposure on television arts programmes. But rapturous receptions for writers like Anthony Beevor, author of a tome on wartime Berlin, show that interest in real books at least matches the appetite for chit-chat.

Mr Beevor exemplifies another trend: the rise of the star historian. Purists hate such popularisers. In last week's *History Today* magazine (itself a prime example of the genre: it shifts 29,000 copies monthly) academics sounded off peevishly about televised history. Such narrative pap was poisoning future students' minds, they moaned, making later study of real history more difficult.

Such criticism is actually rather encouraging. That a debate on what constitutes “proper” history should engage not just dusty dons but the readership of a popular magazine just goes to show how knowledgeable and interested the lay audience has become. The rise of the media don has, in any case, been accompanied by a rapid rise in book sales. According to Nielsen BookScan, bricks-and-mortar outlets sold 2.6m history books last year—up from 1.6m in 1998. Weightier ones, too. Andrew Gordon, who runs Simon and Schuster's Free Press imprint, says that serious narratives are in; microhistory (how such-and-such changed the world) is out. Science books show similar solid merits.

The one area where the dumbing-down thesis undoubtedly holds true is newspapers. Price wars and an advertising slump have shrunk news budgets, particularly in the broadsheets. Compared to real news, covering celebrity shenanigans saves money. So does devoting column inches to bogus social trends. Dumbing-down, for example.

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About sponsorship

Restorative justice

Really really sorry

Jul 31st 2003
From The Economist print edition

Bringing criminals and victims together is sensible, but tricky

ONE of the country's most famous prisoners was released this week. Tony Martin, jailed in 2000 for shooting dead a burglar in his Norfolk home, is enjoying fresh air, ice cream, media acclaim, and a reported £125,000 for his story. But freedom brings new worries. A surviving burglar whom he wounded wants to sue for lost earnings. Rumours of a bounty on Mr Martin's head, even on his dog's, abound.

Wouldn't it be nice if such vengeful sentiments could be assuaged, perhaps by getting victims and offenders together for a chat? The Home Office thinks so. Last week, it announced that such meetings, already used for youthful lawbreakers, would cover adults too. In future, offenders may be punished not by courts, but by panels composed of victims and local people, who will decide how they should make restitution for their crimes.

Termed restorative justice, the idea was originally developed in New Zealand and Canada, as a last-ditch effort to deal with the growing numbers of Maori and native youths in the juvenile courts. Such people, the reasoning went, had little commitment to the legal system but might be more inclined to obey kinfolk or tribal chiefs. It worked there, and restorative justice has spread round the world.

Results are mostly good. Making young criminals confront the consequences of their actions seems to work better than prison in making them go straight in future.

Even hardened criminals may benefit, although courts and politicians are more reluctant to try it out on them. Ben Lyon, who runs Connect, a pilot project in south London, says that gang members particularly welcome the chance to meet victims' families. “Such people need to come out of prison knowing there will be no continuation of a feud. I did a mediation recently where the offender was more nervous than the victim.”

But there have been some spectacular missteps, which advocates of restorative justice are less keen to advertise. A few years ago, an aggrieved shopkeeper in Australia sentenced a 12-year-old shoplifter to wear a T-shirt imprinted with the words “I am a thief”. Local university students seized on the slogan as an icon of cool. Sales at his shop fell.

Such slips are almost inevitable, given victims' lack of experience in dispensing justice. Declan Roche, a criminologist at the London School of Economics, points out that, with the exception of jury service, the judicial system is almost entirely undemocratic. The concept that criminal actions harm individuals, rather than an abstract law-making state, is unfamiliar. If restorative justice is to work, the public will have to get used to some new responsibilities.

And the criminal justice system will have to work out how to balance victims' sentiments with the general good. This is not always easy. In 1998, a New Zealand man was accosted in the street and stabbed six times. Having received a sincere apology, he decided that the perpetrator should not go to jail, but instead help pay for plastic surgery to restore his face. A district court judge, who was profoundly moved by the meeting of minds, agreed. But a higher court did not. Deciding that there was a public interest in deterring violence, it sentenced the culprit to three years in prison.

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About sponsorship

The water industry

Stagnant

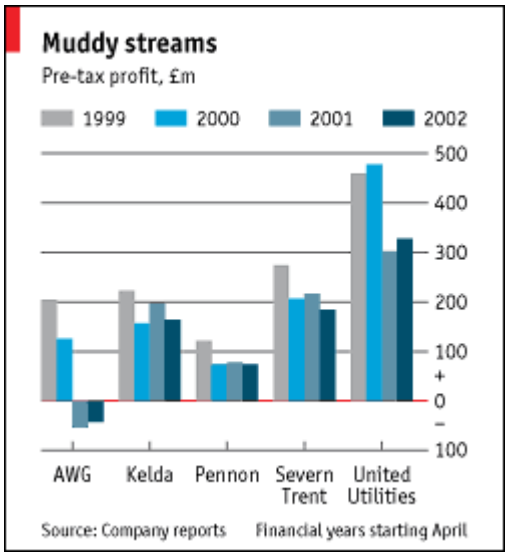
Jul 31st 2003
From The Economist print edition

Water companies mop up capital and leak profits

Get article background

MARGARET THATCHER, her admirers knew, walked on water. In 1989 she proved it: she privatised the stuff. This week, after years of erratic regulation, restructuring and stockmarket unease about the entire industry, United Utilities, the biggest of the remaining quoted companies dealing with water, announced a deeply discounted £1 billion rights call on its shareholders. Is water privatisation sunk?

Water looked an unpromising privatisation target. With no substitute, and with both supply and markets constrained by geography, it is a natural monopoly. So, even as the state created the new water companies, it installed regulation. For a while, the regulator, Ofwat, looked amiably on as the companies pumped up charges to meet new environmental standards and catch up with decades of under-investment—in the sewers of the north-west, for instance, the fief of what is now United Utilities. They dared to pay market salaries to their top men, even (horrors) dividends to their shareholders.



Up went the howls of outrage. One of the first businessmen publicly denounced as a fat cat was a then chairman of United Utilities. From cuddliness, Ofwat switched, in its price review for 1995-99, to ferocity. Protecting consumers from monopoly soon meant protecting them from the profit motive too.

With prices held down (and then, in the review for 2000-05, cut), the companies chopped costs. But efficiency gains and staff cuts have their limits. Ofwat blocked another logical step—merger: it needed lots of “comparators”, to provide a true picture of costs. So the companies expanded abroad, or merged with power suppliers; United Utilities is the north-western result of this trend. Another wheeze was diversification into peripheral businesses such as waste management or renewable energy. United Utilities has a finger in telecoms, and a profitable call-centres arm.

Anything unregulated seemed a better bet than water. AWG, formerly Anglian Water, has ring-fenced its water business. Until Ofwat stopped it, Kelda, the Yorkshire water business, hoped to hive off its water assets into a consumer-owned mutual. The former Welsh Water is now a non-profit company

It is not all bad, at least for consumers—Scotland's state-owned water is grossly inefficient and now overpriced. Shareholders have had little joy, though. Some did well out of takeovers: Northumbrian Water went to Lyonnaise des Eaux, Thames to RWE, a German power giant, Southern Water to ScottishPower, Wessex to Enron. AWG's holders got a 20% price boost this February, when WestLB, a German bank, made an offer, later aborted. But high dividend yields—8.5% at United, over 9% at AWG—reveal the market's view of the remaining quoted companies: forget growth, buy for income if at all, and cross your fingers that the pay-out isn't cut.

Ofwat has in fact been a little softer recently, ahead of its review for 2005-10: last winter it gave both Kelda and Severn Trent permission for interim price rises, and its chief, Philip Fletcher, admits that prices must rise to encourage investment in pipes and pumps. But the market is still right to be sceptical. Water is, and will remain, a semi-public sector. In any industry, regulators' ambition to meddle will expand to match the opportunities available. And that is not how capitalism thrives.

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About sponsorship

Farm labour

Gang ways

Jul 31st 2003 | BOSTON, LINCOLNSHIRE
From The Economist print edition

A flexible rural labour market has its drawbacks

> The gang consists of 10 to 50 persons—women, young persons of both sexes...and children. At the head is the gang-master, generally what is called a bad lot, a scapegrace, unsteady, drunken, but with a dash of enterprise and savoir-faire.

THE gangs are smaller these days, and child labourers have been replaced by immigrants. But the men who supply cabbage-pickers and cauliflower-trimmers in the fenland fields of eastern England have changed little since Karl Marx wrote about them in 1867. Gangmasters still have a dash of savoir-faire, and they are still a dodgy bunch.

Indeed, their reputation is worsening. Long despised in some quarters for profiting from the fruits of others' labour, gangmasters now stand accused of flouting the law, dodging taxes, hiring illegal immigrants and treating their workers abominably. For the past few years, they have been pursued, ineffectively, by a clutch of government agencies under the grand-sounding title of Operation Gangmaster.

But there are still a lot about—between 850 and 1,100, according to the Department of Work and Pensions. The Fresh Produce Consortium, a trade body, reckons that gangmasters provide half the 72,000 casual workers in British horticulture.

Now as in Marx's day, gangmasters thrive for two reasons. First, they provide a cheap, flexible, docile workforce for producers. Second, they put unchoosy workers in touch with simple jobs paying quick cash. In rural areas, the transport the gangmasters provide is crucial. For those with poor English and little knowledge of how the British labour market works, exploitation by a gangmaster is better than no exploitation at all.

Changing consumer tastes means that business is booming. Busy households increasingly want their vegetables washed, chopped and pre-packaged. That means that processors are clamouring for unskilled workers. They come from ever farther afield.

Boston's gangmasters began to employ large numbers of “foreign” hands in the 1980s. In those innocent days, “abroad” meant anywhere out of the county—at that time the labourers were from Yorkshire. They now use Portuguese workers, about 2,000 of whom live in Boston, plus an unknown number of others from Iraq and eastern Europe.

The business has become more sophisticated too. As the labour pool expands, and as government and media scrutiny intensifies, the largest gangmasters are turning themselves into “employment agencies”. To fill large orders, they depend on a growing army of subcontractors. Typically one-man operations, these explain the oddly large number of unmarked vans parked in the poorer neighbourhoods of Boston at night.

The subcontractors are the biggest worry. Difficult to trace, let alone prosecute, they are the most likely to be breaking the law and employing illegal immigrants. It is the small operators, too, that are most commonly mentioned in tales of worker abuse. This is not surprising. As the first big investigation of gangmasters' practices noted, in 1843, “no tyranny is so grinding as that of a poor man who oppresseth the poor.”

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Farmers' markets

Choice cuts

Jul 31st 2003 | WINCHESTER
From The Economist print edition

Food fresh from the farmer is profitable and popular

A JAUNT to the supermarket to stock up with food is nobody's idea of a fun day out. Farmers, who complain that their incomes are squeezed to inflate the big chains' profits, don't much like them either. So it's no surprise that people are finding different ways to shop and farmers discovering other ways to sell.

The first farmers' market appeared in 1997. There are now reckoned to be about 450 of them, mostly appearing fortnightly or monthly in town squares up and down Britain. One such market, in Canterbury, has now become a six-day operation with 17 stalls selling local and speciality produce, plus a restaurant. “Turnover is going up all the time,” says Blaise Vasseur, the market's co-founder.

Part of the fun is finding bargains. Among the cheeses, umpteen varieties of sausage and excellent beer at the farmers' market in Winchester last weekend, your reporter found fruit and vegetables costing the same or less than in supermarkets.

Then there is the kind of exotica that seldom appears elsewhere, from rare strains of apples to unusual meat. A highlight for Winchester foodies is water-buffalo fillet steak, at £23 a kilo.

The National Farmers' Union estimated last year that turnover at the nation's farmers' markets had risen to £166m annually. That is still a tiny sliver of the £62.8 billion spent on food shopping in Britain last year. But it is handy income, especially after five years of low prices.

A sure sign of this type of shopping's growing importance is that commercial rivalries are rearing up. Some towns have medieval royal market charters that prevent any competitor within 6 2/3rds miles (10.7km). That, apparently, is the distance that a medieval horse could lug a cartload of produce to market and return home in a day. Alec Duthie, who helps run farmers' markets in Leicestershire, says that the county town's charter, protecting what claims to be one of Europe's largest covered markets, has made it impossible to set up farmers' markets nearby.

The supermarkets want the business back. Tesco has appointed a bunch of regional marketing managers to find locally produced speciality foods. Interest seems to be highest, says the company, where there is strong national or regional sentiment. Waitrose managers are encouraged to stock produce from farms within 30 miles of their store.

The farmers, however, are recruiting some muscle of their own. Manchester City Council, for example, is planning a £30m revamp of its main wholesale market. Under a rebranded name of Fresh Food Centre North West, the plan is to make it easier for small producers to sell and to lure in the public by adding shops and restaurants.

The inspiration, says Stephen Allen, the project director, is Borough Market in London. This is not, technically, a farmers' market, because it also sells foreign delicacies. But since its expansion in 1999 it has become London's best-known source of pricey but delicious food for gourmets. A pinch more competition there would be perfect.

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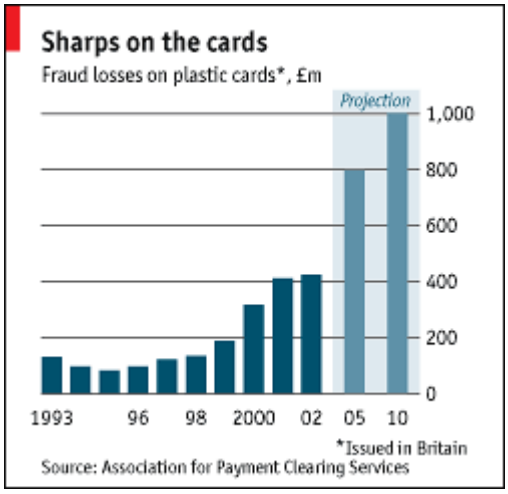
Fraud

Chipping away

Jul 31st 2003
From The Economist print edition

Banks have been soft and slow in dealing with credit card fraud



WHEN French banks introduced personal identification numbers (PINs) for credit and debit card purchases in 1993, fraud losses more than halved. Ten years on, British banks are still procrastinating about doing likewise. Trials are under way in Northampton but it will not be until 2005 that a “chip and PIN”, system, combining a personal code number with an all but uncrackable microchip on the card, will be in full use.

Why so long? Certainly not because it doesn't matter: during the past decade, plastic-card fraud has trebled to £425m. Losses to crooks are projected to double again by 2010 (see chart). So common is the crime that one in three cardholders will experience it sometime.

It is a lucrative and easy form of fraud. The risk of being caught is tiny. Technology makes it simple to counterfeit the cards' magnetic strips. Signature authentication means little; few retailers give more than a cursory check. And the banks seem much keener on gaining new customers than safeguarding their existing ones. That was well illustrated this week when the Royal Bank of Scotland offered a card with a £10,000 limit to a resident of the Manchester area with no credit history, no income, and no assets. The prospective customer's only possible use for the card would have been to chew it: Monty (see below) is a dog.

One reason for the slow improvements in security is that Britain is a different market. There are 59m credit cards in circulation, more than in the rest of Europe combined and the card industry is fragmented with more than 60 different issuers. There have been lengthy wrangles about who will pay for the changes. Re-equipping 850,000 point-of-sale terminals, and issuing the new microchip cards, will cost more than £1 billion. A third of that will have to be borne by retailers.

Increase my credit limit or I'll bite you

Banks, retailers and the police are keen not to quarrel in public, so they tend to speak from the same script. Yet privately, the police complain that the industry has been slow to change its ways. “They make such huge profits that they don't bother too much about fraud,” said one security source. Cards are certainly profitable. British shoppers use credit-cards to spend £103 billion annually, on which issuers typically take a couple of percent from retailers. Interest is routinely charged on approximately £31 billion of outstanding balances. Barclaycard made £600m last year; its fraud losses are undisclosed, but can only have been a small dent. Consumer complaints are also muted. The banks have a policy of immediately refunding losses from crime unless there has been wilful negligence by the cardholder.

But someone ends up paying. Barclaycard, which has more than 9m customers, charges most of them 17.9% on overdue balances. Some customers pay as much as 25%, more than six times the base rate. Barclaycard's chief executive, Gary Hoffman, defends his company's high interest rates in part because of the need to make good losses from fraud.

Members of the Treasury Select Committee, which will issue a critical report on the industry later this year, are unimpressed. The penalties for laziness and stupidity seem disproportionate. The industry is not as competitive as it might seem, in part because of consumer inertia, in part because many of its terms and conditions are so hard to understand. Research by the Consumers' Association, a pressure group, has shown that the way card issuers measure their charges is so opaque that the headline ratebears very little relation to what the customer actually pays. In one example, two credit cards advertised the same annual percentage rate but differed by as much as 70% in the eventual cost to the cardholder. A professional mathematician, Robert Hunt, of the Isaac Newton Institute in Cambridge, who gave evidence to the committee, said that even he found the sums difficult.

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Correction: the LSE and Duke University

Jul 31st 2003
From The Economist print edition

Contrary to our report on July 26th, the London School of Economics is offering management education, but not an MBA, in its new tie-up with Duke University. LSE does offer an MBA with other foreign partners.

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Travel and tourism

New routes to the beach

Jul 31st 2003
From The Economist print edition

Alamy

The travel industry is in the throes of the biggest revolution to hit it since the start of scheduled flights

TOURISTS are on the move again. Last weekend it was hard to find a houseboat for rent on the Dal Lake, as visitors returned in bulk to Kashmir's long troubled valley. It is equally hard to find a seat on a Turkish Airlines flight from Istanbul to London in the first half of September. Iraq's north-western neighbour is enjoying a summer season that it did not dare hope for just a couple of months ago.

Broader statistics support this picture. The cautious Japanese are leaving home again. In one week in July, the number of Japanese visiting Queensland's gold coast was some 20% higher than a year earlier. Foreign visitors are returning even to Israel. Arrivals there were up 44% in June, to a level similar to the months immediately before September 11th. Terrorist threats, the Iraq war, SARS and the economic downturn in western economies are all being shrugged off as consumers demonstrate once again how remarkably high holidays come on their list of priorities.

It is not yet good news everywhere. Kenya, for instance, has not recovered from the American and British governments' advice to travellers in mid-May to stay away—which led British Airways to suspend all flights to Kenya for over a month. A survey of 72 local tourism companies by Ernst & Young found that they lost 2 billion Kenyan shillings ($27m) from cancellations in the two weeks after the warnings.

Many firms have suffered in the two years that the industry has been in trouble. American carriers such as US Airways and United Airlines have been working their way through Chapter 11 bankruptcy, a fate that others have avoided only thanks to state aid. Asian airlines were knocked sideways by the SARS scare. In early May, Cathay Pacific was carrying only 4,000-5,000 passengers a day. By the end of June it had returned to a more normal 18,000-19,000.

Highly leveraged firms have been particularly vulnerable. For example Le Meridien, a hotel group, has for weeks been continuously rewriting a financial rescue plan. Tour operators too are having a tough time. Germany's TUI, the world's biggest, is laying off full-time staff “in response to the business situation”, while the British company MyTravel is (as part of its refinancing) reportedly trying to sell TSI, an American cruise-holiday booking agency that it bought only three years ago.

Even today's good news has a dark side. If flights are full it is partly because airlines have cut capacity sharply, using smaller planes and flying less frequently. And some types of accommodation (houseboats, for example) are unavailable simply because their owners have abandoned the business in despair.

To encourage holiday-makers, firms have been offering generous discounts, shrinking their profit margins in the process. At the smartest hotels on Bali's once immensely popular Jimbaran beach, rooms are available at a 50% discount to their standard rates. Last week PKF, a consultancy, reported that London hotels' occupancy rate was up 1.8% in June (to 78.9%), but room rates were down 5.5%, leaving the hotels worse off than in the same month last year. “It's not good,” says PKF's Melvin Gold, “but it's less bad.”

The geo-political blows that the industry has suffered in recent years have diverted attention from underlying changes that have been simultaneously revolutionising the industry. Traditional airlines say they are discounting in order to encourage nervous passengers to return to the air. But, in part, many of them are also being forced to compete with rapidly growing low-cost carriers such as Britain's easyJet and America's Southwest.

The wonders of the web

The low-cost carriers have become a serious force in the industry. The latest issue of *Fortune* magazine lists Michael O'Leary, chief executive of low-cost Ryanair, as one of the 25 most influential businessmen outside the United States. The list does not include Rod Eddington, the boss of British Airways, who spent much of this week in talks with unions trying to end a strike by check-in staff at Heathrow airport (see article), a dispute brought about by the airline's desperate need to cut costs to match the low-cost carriers.

Staying away

International tourist arrivals

% change on previous year, selected countries

	2000	2001	2002	2003*
Britain	-0.7	-9.4	4.8	0.9
France	3.5	1.2	2.0	-4.1†
Indonesia	7.1	1.8	-2.3	-34.6
Israel	4.5	-50.5	-27.9	-15.1
Kenya	4.3	-6.5	-0.4	na
Mexico	8.4	-4.0	-0.7	-14.8
South Africa	-0.4	-1.5	10.9	5.0†
Spain	2.4	3.4	3.3	3.2
Turkey	39.1	12.5	18.5	-11.2
United States	5.0	-10.7	-6.7	-7.6†

Source: World Tourist Organisation *Jan-April †Jan-March

The other revolutionary influence on the business is the internet. The web has become a vast clearing house for the travel industry's overcapacity: the more deals it offers, the more buyers it finds. Forrester, a research company, reckons that travel is now the largest e-business in the world, with American consumers this year spending more than $27 billion on travel online. PhoCusWright, an online travel consultant, reckons that 30% of all travel business will be booked online by 2005. Ken Chenault, boss of American Express, expects 20% of all corporate travel to be booked online this year, up from just 1% two years ago.

Less and less do tourists wander passively into travel agents' offices and take whatever has been pre-packaged for them. They increasingly indulge in “dynamic packaging”, surfing the net to combine their own low-cost airline tickets with hotels' special online offers. Some do it themselves; others ask an agent to do it for them. This also means they make travel arrangements much later, a phenomenon reflected in the name of one of Britain's most successful travel sites: lastminute.com.

This is the most radical change in the industry in half a century. Its consequences are not yet clear, but they are sure to be extensive. Richard Chamberlain, an analyst at Goldman Sachs, believes it means long-term “terminal decline” for the mass-market package-holiday business, since its pricing cannot remain attractive.

It also means an acceleration of mergers in the industry. Airlines have been talking togetherness for some time—the latest being an alliance proposed this week between Air New Zealand and Australia's Qantas. But mergers are taking place in other parts of the industry too. In mid-July, American Express said that it will take over the privately owned Rosenbluth International, a leading rival in the hard-pressed corporate-travel business.

Another consequence is that companies are (almost for the first time) being forced to be innovative. Firms such as Space Adventures and Red Letter Days are offering thrills and spills as a holiday option—albeit a very long holiday if you want to buy (for $20m) a seat on Space Adventures' new package tour to the International Space Station, scheduled for 2005.

In the “well-being” business, the fastest-growing niche in the industry, resorts are offering ever more

innovative combinations of massage, mud and medicine. At its more extreme end are South Africa's “scalpel safaris”. Combining cosmetic surgery in Johannesburg with a trip to the bush or the beach, they are one step short of the sex-change vacations available in Thailand—a trip guaranteed to send you home feeling an entirely different person.

Future prospects

In the longer term, the industry has two particularly enticing prospects: the Chinese and the over-50s. Although still restricted in where and how they can travel, the Chinese are likely to be enthusiastic tourists in the future. Over 16.5m of them ventured abroad in 2002, twice as many as in 1998 and almost as many as the French and Italians. Many went only as far as Hong Kong, which this week announced an easing in its restrictions on visitors from nearby Guangdong province, news that was sufficient to lift the share price of Hong Kong & Shanghai Hotels by almost 7%.

Other places, such as Singapore, are also making it easier for Chinese tourists to visit. Germany has become the first country in the European Union to obtain “Approved Destination Status”, which makes it eligible to receive Chinese organised tours. Germany expects 1m Chinese visitors by the end of the decade.

The other growth area exciting the industry is the over-50s. There are going to be many more of them, and they are going to be healthier, wealthier and wiser about booking vacations. As a group they account for a disproportionately high percentage of those who buy travel over the internet. Markus Deutsche, managing director of Cendant Vacation, reckons that by 2005 30% of all travellers will be over 50. Any business that can meet their online needs will travel far in the future.

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British Airways

One strike and you're out

Jul 31st 2003
From The Economist print edition

Why Britain's flag-carrier is in a fragile condition

Get article background

AFP

Been there, done that

WHEN he was boss of American Airlines, the abrasive Bob Crandall used to say that pilots could put an airline out of business in less than six weeks by going on strike. Three years ago flight crews at United Airlines threatened to strike, driving passengers to other carriers and starting a decline that eventually led to the airline's bankruptcy last year. This summer British Airways (BA) is being similarly threatened, unless it can stamp out labour troubles.

The £45m ($73m) first-quarter loss announced by BA on July 31st shows what a difficult position the airline was in even before 250 check-in clerks went on an illegal, wildcat strike on July 18th, grounding 500 flights and wreaking havoc. For an airline filling seats in a slump only by selling tickets at ruinous prices, this was a severe blow. Just as BA was about to launch a big advertising campaign mocking the delays common to low-cost carriers, TV screens were suddenly full of its own angry passengers. Unlike some European rivals, such as Air France, which face little competition and often have the state as shareholder, BA knows its passengers have a choice of whom they will fly with.

Unions and management managed to negotiate a settlement of the check-in dispute this week, but the damage to BA already amounts to some £30m-40m of lost revenues. Rivals, such as Virgin Atlantic, easyJet and bmi are having a field day as nervous holiday-makers switch to them. BA last experienced a big defection of passengers in 1997, when cabin attendants went on strike over roster changes. That was also the year when profits started to slide for the airline, which had for long been one of the world's most profitable.

The scenes of chaos at Heathrow have prompted pundits to complain about BA's poor response to the walk-out. Yet while airlines can plan for official strikes, a spontaneous action by a few hundred workers irritated at having to clock on and off with electronic swipe-cards is hard to predict. BA is introducing the computerised swipe-card system so that it can switch staff more quickly to where they are needed, eg, when queues lengthen in some parts of a terminal. It will also eliminate some of the skiving that goes on—when people get their mates to cover for them. Thus it is part of the airline's efforts to eliminate waste.

BA has made more progress than any other mainstream airline in Europe in coming to terms with the reality of competition from no-frills, low-cost carriers. It uses the internet and flexible prices to offer low fares when demand is slack. It has cut one job in four as it has shrunk capacity. By next month, some 13,000 jobs will have been eliminated over two years.

But BA shares with other European flag-carriers a corporate culture with its roots in a past when governments owned airlines and bankruptcy was not possible. Similar attitudes were rife in America until recently. The surprising development there has been that unions at United, US Airways and American Airlines—all faced with extinction—have begun to make previously unthinkable concessions. These have helped to bring high operating costs down by more than a third, to a point where they can compete with more successful low-cost American carriers, such as Southwest, AirTran and JetBlue.

Within BA lurk traces of the old ways of doing things, including a large head office. Employees at carriers such as easyJet or Ryanair have seen their airlines expand steadily on a simple proposition that includes

minimising cost and maximising revenues. BA, clearly, still has some employees who think the airline exists for their benefit, rather than that of their customers and shareholders.

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Skiing in Africa

No business like snow business

Jul 31st 2003 | TIFFINDELL
From The Economist print edition

In today's travel market, you can even go sub-Saharan skiing

WHO would build and run a ski resort in sub-Saharan Africa? “Lunatics”, says Ivan van Eck, the only man to do it successfully. Between 1969 and 1992, five attempts to create ski slopes in southern Africa's Drakensberg mountains melted into nothing. Snow was irregular, costs were high and paying visitors rare. But Mr van Eck's Tiffindell resort, on a 3,000m (9,900 feet) peak just south of Lesotho, has managed to produce an African ski season every year for the past decade. Now Mr van Eck is expanding the resort and slope. How has he managed it?

Big game on skis

It is an unlikely triumph. There are no alpine conditions for easy success: Tiffindell has little snow, a difficult road (four hours on a gravel track that creeps up a cliff), a remote and poverty-stricken location, no piped electricity or water, and a continent of people bewildered by the idea of playing in the cold. On the rare occasions when real snow is abundant, reaching or leaving the resort can be impossible. Last year clients who were trapped for a week on the hillside had to be rescued by helicopter. Yet between May and September, the southern hemisphere winter, over 5,000 people arrive for nights in draughty chalets, and days of delighted slithering down some 1.5 hectares (3.7 acres) of artificial snow.

The rich, young clientele comes as much for the cabaret nights, fun in the sauna and *après-ski*, as to practise for winter holidays in Europe or America. The resort is now the biggest single employer in this rural corner of the eastern Cape. It provides seasonal jobs for 95 local unskilled workers and for 60 skilled staff and instructors from Johannesburg and abroad. Children from local schools get free ski instruction, if they can reach the slopes. The country's annual ski championship is held here in August, and South Africa hopes to send competitors to the winter Olympics. Scores of farms in nearby valleys have opened guest houses for skiers. Other tourism is booming, as more visitors get to know the area.

Although the resort is not reliably profitable, Mr van Eck has begun a 150m rand ($20m) expansion. The wiggly and slightly bumpy slope will be lengthened, and comfortable villas will be added to the existing bunkhouses. None of this is easy, partly because driving supplies up the gravel track takes a lot of time and diesel. A new dry-ski slope in Johannesburg is also being built to encourage more people to try skiing. Why do all this? Because of competition. A rival operator across the border in Lesotho, Afri-Ski, is starting to pump its own fake snow. If Afri-Ski succeeds, Tiffindell will lose its novelty value.

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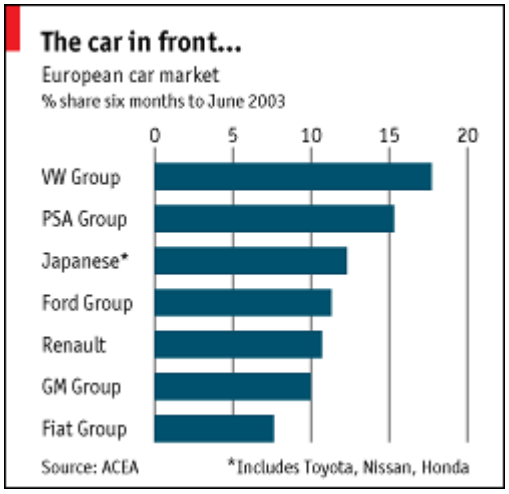
Europe's car industry

Price wars and profit woes

Jul 31st 2003
From The Economist print edition

Europe catches Detroit's damaging discount disease



ONE after another European carmakers are queuing up to report falling profits or yet more horrible losses. Last week Renault, PSA Peugeot Citroën and DaimlerChrysler reported bad news, while Volkswagen said its profits were down by half in the second quarter; on July 31st, it was Fiat's turn to report on its worst-ever crisis. Although each unhappy company has its own problems, there are three common ones.

The gloom is mainly caused by falling sales in western Europe, persistent over-capacity of up to 30% and a rush to slash prices and offer special deals such as free insurance or finance just to "move the metal"—much as the "Big Three" carmakers in Detroit have done for almost two years. The trouble with discounting is that it can be almost impossible to stop. Steve Evans, head of Car Price Check in Britain, says average British prices are down 7% from a year ago, with some dealers offering discounts of 30%. "There's too much metal chasing too little demand," he says.

A surprise 2.9% (year-on-year) jump in European sales in June has not lifted the industry out of its depression. Sales for the year so far are still down by 2.6%, with worse to come. Jean-Martin Folz, chief executive of Peugeot, forecasts that the market will shrink by 3-4% this year. Some observers are even gloomier. Graeme Maxton of Autopolis, a consultancy, sees a fall of 5.7% this year and 2.5% in 2004. By the end of next year, he reckons the market will have slumped to 13.2m, down from its peak of 15.1m in 1999. The fall is biggest in the French and German markets, where economic weakness has coincided with a cyclical lull in car buying.

On top of these domestic woes, DaimlerChrysler, BMW and Volkswagen are all heavily exposed to America. Daimler's Chrysler division wrote off more than $1 billion in the latest quarter because a price war forced a reduction in the value of growing stocks of unsold vehicles in America. VW's boss, Bernd Pischetsrieder, says he is concentrating on selling vehicles profitably in North America rather than aiming for gains in market share. Meanwhile, BMW, which saw sales fall by over 5% in the first half, is discounting heavily in America in order to win sales from Mercedes and Toyota's Lexus. Its second-quarter profits are expected to be down by as much as 15%.

VW's 49% fall in second-quarter profit is caused partly by its American problems and partly by weakness in Germany, where uncertainty over tax changes has helped to depress car sales even further. Mr Pischetsrieder is refreshing VW's ageing product range and plugging gaps with new niche vehicles. He wants to get away from his predecessor's preference for making dozens of models with four basic platforms (or chassis). This has led to VW having too many similar models (under its Audi, Seat and Skoda brands) competing with one another. Sharing platforms also means that models age at the same time.

Peugeot has long had the reputation of best managing the product cycle, keeping up a steady flow of attractive new cars under its Peugeot or Citroën brands. Not even this could stop first-half net profit falling by 12%. Operating margins are down from 5.2% to 3.7%. Peugeot has been Europe's most successful volume carmaker, running its factories flat-out, compared with the industry's poor average plant-utilisation of around 75%. That it now thinks it will fall short of its 2003 profit target is indicative of a tough time ahead for everyone in Europe's volume car market.

At Renault things on the surface look bright with a 13% rise in June sales, helped by strong demand for the latest Megane model. But this comes as only light relief after sales in the first half of the year slid by 6.8% in western Europe. And the 31% rise in Renault's six-month net profit was due entirely to the contribution from Nissan, the booming Japanese producer in which Renault holds a 44% stake. Four years ago, Renault rescued Nissan; today Nissan is helping its parent through a difficult patch. Renault's boss, Louis Schweitzer, admits he allowed the product range to grow too old. He hopes the distinctively styled new Megane, Megane Scenic and Espace models will revive Renault's fortunes. But Renault's quirky styling has failed with two models at the top of the range: the Avantime coupe has been dropped and the Vel Satis saloon is doing very badly.

AP

Where can I buy a bicycle?

Two of the biggest victims are General Motors Europe and Ford Europe. Both were caught flat-footed in the late 1990s, when Renault, Peugeot and Volkswagen improved dramatically. Since then both American groups have made efforts to trim capacity and raise productivity to get back into profit. GM closed one car-assembly factory in Britain and launched a plan to turn round its Adam Opel brand in Germany by slashing costs and boosting sales. But the target of break-even this year has been quietly dropped by GM Europe, and the group is again staring at losses in Europe, of around $500m.

Likewise Ford. It has the best range of cars it has ever put on the European market, and it has modernised its factories, only to find that it cannot make a profit. In the second quarter it made a loss of $525m from a business that had been overhauled from top to bottom. Last year it had a similar nasty shock from its Jaguar business. Next month it plans a big upheaval in its European management, with an overlord appointed to squeeze savings out of its Ford, Volvo, Jaguar and Land Rover arms.

Europe's weakest manufacturer remains Fiat**,** whose market share trails its rivals. The Italian group has raised almost €10 billion ($11.5 billion) from disposals and a share issue, and aims to pour it into developing 26 new models in three years. After a period of revolving doors at the top, Fiat is now in the hands of a chief executive, Giuseppe Morchio, who made his reputation by turning round Pirelli, when the Italian tyre company was struggling. He is counting on a renewal of Fiat's tired model range reviving the company's fortunes by enough to persuade GM to put in another €1 billion towards financing his rescue plan. Fiat just might surprise the sceptics and bounce back—one or two hit products can quickly boost productivity and turn loss into profit. But price wars make such things much harder.

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Mergers and share prices

The price is wrong

Jul 31st 2003
From The Economist print edition

Mergers are more common when shares are overvalued

Get article background

AN INCREASE in merger activity on the back of a sharp rally in share prices is of little surprise—more deals are struck in boom times than during slumps. But it could also be evidence that share prices are again becoming overvalued. Many mergers seem to happen when bosses, who are better informed than outside investors, decide that the stockmarket is wrongly valuing one, or both, of the firms involved. Merging can then seem a good way of profiting from such misvaluations—despite the lamentable record of value creation by mergers in recent years.

This theory is tested in a new study* of merger activity, involving 2,922 completed and 810 unsuccessful bids between 1978 and 2000, in which both firms involved were listed on one of America's three main stockmarkets and the value of the transaction exceeded $10m. The valuation of shares is a matter of much controversy, but the authors used two popular, if not iron-clad, proxies for misvaluation. One is the "price to book" ratio of a firm's share price to the book value of its assets. The other is the ratio of share price to a "residual-income value", reflecting both book value and analysts' forecasts of profits. The higher the ratio, the more likely it is that shares are overvalued.

The study finds that at times when the stockmarket as a whole seemed overvalued, aggregate merger activity was indeed higher. The fact that at such times bidders were more likely to offer to pay in shares than in cash reinforces the view that misvaluation was driving activity, as buyers tried to exchange their overvalued currency—their equity—for hard assets while they could. Bidders were also typically more overvalued than their targets, especially when stock was the currency.

Intriguingly, the frequency with which bids were hostile, and with which offers were rejected, was lower when the stockmarket as a whole was overvalued. Executives of overvalued targets may be more willing to accept an offer than when their shares are undervalued, because a sale usually allows them to cash in their stock options at a favourable price. Consistent with this, in hostile bids, bidders were typically overvalued, as usual; but targets were relatively undervalued. When the market as a whole was undervalued, targets tended to get a higher premium for selling out—knowing that they were probably undervalued may have led them to strike a harder bargain.

* "Does investor misvaluation drive the takeover market?", by Ming Dong, David Hirshleifer, Scott Richardson and Siew Hong Teoh, February 2003, Ohio State University working paper.

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China and brands

“Just do it” Chinese-style

Jul 31st 2003 | HONG KONG
From The Economist print edition

Chinese companies are learning that brands can pay

New blood in China

WITH an increasingly sophisticated and wealthy customer base, Chinese consumer-goods makers are starting to pay attention to brand-building. The smartest are moving beyond simple product ads to marketing an entire lifestyle. In an echo of Nike's famous “Just do it” campaign, Li-Ning, the largest producer in China's sportswear market, has just launched an advertising blitz under the mottos “Goodbye” and “Anything is possible”. Costing 15m yuan ($1.8m), eight times the company's usual ad spend, it taps into the Chinese belief that they can safely wave goodbye to their hard lives of the past, and that the future is filled with unlimited opportunities.

One of those opportunities, if you ask Wilson Xu, Li-Ning's marketing manager, is a new-found freedom to seek a more balanced life. Putting it plainly, consumers should stop chasing academic and commercial success and get out more often to participate in more sport. Only around 15% of Chinese mainlanders aged 15-35 actively play a sport, compared with 50% in America. “Most Chinese people believe that success is about academic achievement and making money. They don't care about their health,” says Mr Xu.

The sophisticated ads, which feature ordinary people overcoming failure (one shows a boy who smiles despite hurting his hand skateboarding; another a girl kick-boxing and then a shot of her bandaged knuckles), are supposed to puncture the self-consciousness that keeps many Chinese on the sidelines unless they are already good at a given activity, says Kelvin Cheng, managing director of Leo Burnett Beijing, the agency behind the campaign. Mr Cheng says that the style is a new way of advertising for Chinese companies, which usually sell on price alone.

Of course, appealing to a new fad for spiritual well-being and for sports ahead of the 2008 Olympics in Beijing is also a good way to get modern Chinese consumers to part with their money. After years of focusing on cheap prices, Li-Ning, like many Chinese companies, has spent the past two years learning that branding pays. The company is investing around 10% of its 1 billion yuan revenues in marketing, compared with 5% two years ago, and the proportion is due to grow.

That investment, which includes hiring a foreign ad agency, has enabled Li-Ning to hold on to its leadership despite the encroachment of foreign firms. Li-Ning leads both America's Nike, which has about 800m yuan in sales in mainland China, and Germany's Adidas. The prospect of the Olympics is helping to expand the market by more than 25% a year. Mr Xu reckons the new branding campaign should enable Li-Ning to double the retail prices of its most expensive products (shoes) to around 1,000 yuan in a few years, roughly what Nike's most expensive shoes cost now.

Will Chinese consumers continue to choose a home-grown brand over a glamorous foreign one such as Nike, which uses sports celebrities with global appeal to endorse its products? As China gains in self-confidence, they might. And Li-Ning understands the danger of relying too much on celebrities. Its founder was Li Ning, who won three gold medals for gymnastics in the 1984 Los Angeles Olympics, but is now regarded as a bit passé by younger consumers. Mr Li's days as a sporting hero may be over, but his brand may yet bring more glory.

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Face value

A new voice at Vodafone

Jul 31st 2003
From The Economist print edition

AFP

Cometh the hour, cometh Arun Sarin

A FAMILIAR problem when looking for a successor to a strong and effective chief executive is the temptation to replicate the departing boss. One thing is clear at Vodafone: it has avoided this trap. Since 1997, the world's largest mobile-phone company has been run by Chris Gent, a flamboyant British dealmaker, who succeeded where every rival failed, and built a truly global, all-wireless empire spanning 28 countries and serving more than 122m customers. Now knighted, Sir Chris is retiring at the tender age of 55. The new chief executive, Arun Sarin, is a quite different model. That is just as well, since he is likely to have to steer the company in a quite different direction.

Mr Sarin is only seven years younger than Sir Chris. He knows Vodafone well, both as a non-executive director and as former chief operating officer of AirTouch Communications, which Vodafone bought in 1999. He will have to tackle two big problems: how to integrate a collection of individual companies to achieve economies of scale, and how to rationalise the company's American venture.

Born and brought up in India, but now an American citizen, Mr Sarin's background will be an asset. There might seem to be a certain irony in putting an Indian-American in charge of the world's biggest mobile-phone operator: each of these countries has made a mess of introducing wireless telecoms. But Vodafone is a British company that aspires to be a true multinational. It has large operations in Germany, where it bought Mannesmann in 2000, in Italy and in Japan. To put another Brit into the top job might have bred resentment. Mr Sarin is rather the archetypal international executive. The son of a well-to-do Indian military officer, he went to a military boarding-school, but his mother encouraged him not to follow his father's career. Instead, he took an engineering degree at the Indian Institute of Technology, the country's equivalent of MIT. From there he went to the University of California at Berkeley on a scholarship, to do a further degree in engineering and an MBA. He has lived in America ever since. The main remnants of his origins are an Indian wife (whom he met at Berkeley), a touch of an accent and a passion for cricket, which he shares with Sir Chris.

Mr Sarin inherits a company in good shape, by the dented standards of international telecoms. Sir Chris shrewdly paid for his acquisitions in shares, not cash, so that the collapse of the bubble did not leave him with a shrunken business and a mountain of debt. He also avoided the mistake of collecting minority holdings: the stakes he bought generally allowed for subsequent conversion into controlling interests. Within the industry, he has begun to shift the balance of power away from handset makers, argues

Stephen Pentland, a partner at Spectrum Strategy, a consultancy: the new and successful Vodafone live! multimedia service was launched on handsets specially made by Sharp.

Now, knit it together

Mr Sarin appears to be an operating man rather than a dealmaker, but he is working on deals of his own. He has been talking to France's Vivendi Universal about SFR, the French mobile operator that the two companies have been fighting each other to control. However, his main job is more prosaic. At the annual general meeting on July 30th, he emphasised the need to build up economies of scale. For that, he needs to knit together the various operators, centralising group management and research and development, disseminating best practice and forging strong links with the operating companies. He will be building on a solid base: the company's chief operating officer, Julian Horn-Smith, has created the best internal management-information system of any mobile business, says Mr Pentland. But integrating Vodafone into a single company will undoubtedly involve redundancies and some rebuffs to national pride.

The biggest integration challenge will be in the United States. It was there that Vodafone first came into contact with Mr Sarin, who began his telecoms career with AirTouch's original owner, Pacific Telesis. Vodafone customers from other countries cannot use their handsets on the network of its American partner, Verizon Wireless, because it has not adopted the GSM technology used on Vodafone's other networks. AirTouch now has a 45% stake in Verizon Wireless, and Verizon looks certain to adopt an incompatible standard for third-generation telephones too, perpetuating the Atlantic divide.

The AirTouch stake in Verizon is too small for Mr Sarin to hope to change the joint venture's policy. So he has two broad choices. One is to ignore the dilemma: Verizon Wireless will launch one handset later this year capable of switching between the incompatible networks, and three more next year. Besides, this is an issue that matters only to the minority of customers who travel between America and the rest of the world.

The other choice would be to get out of Verizon altogether. Vodafone might use a put option that would allow it to sell its stake, and hope to use the proceeds to buy a controlling stake in a wireless rival. The obvious choice would be AT&T Wireless, since it has adopted GSM. But Verizon could, if it wished, pay off Vodafone in equity rather than cash, which is unattractive given the depressed state of wireless shares in America. Besides, Sir Chris insisted this week that Vodafone had decided not to go down this track. An alternative might be to exchange a chunk of Verizon Wireless shares for Verizon's stake in Vodafone Italy. Once its stake in Verizon Wireless falls below 20%, Vodafone is no longer constrained by a non-compete clause and would accordingly be free to buy into another wireless network.

Whatever choice he goes for, Mr Sarin will need all his knowledge of the American market, and all his considerable charm, to create a coherent position in the rich world's least coherent wireless market.

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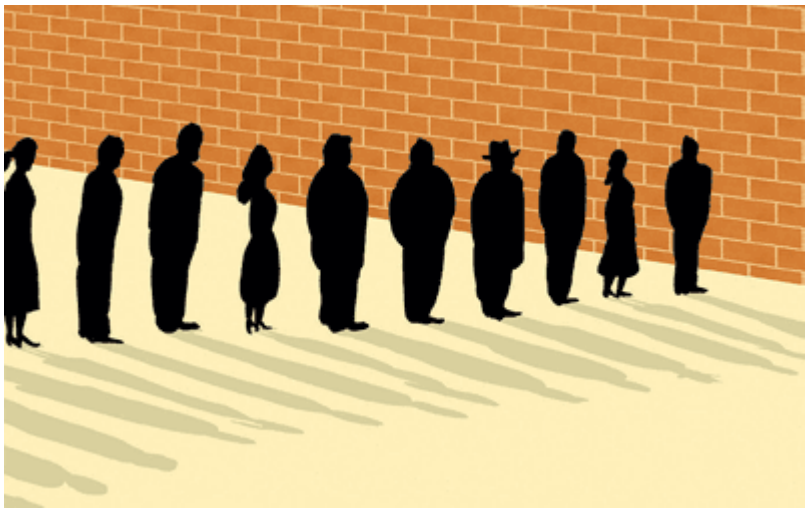
Insurers and the Holocaust

Line to nowhere

Jul 31st 2003 | NEW YORK
From The Economist print edition



Progress towards paying out on the life-insurance policies of Holocaust victims has been remarkably slow

OF ALL the Holocaust litigation that erupted in the 1990s, that over life insurance might to the uninitiated have seemed the simplest. There were policies and there were deaths, so there should have been payments. Instead, says Michael Bazyler, a professor at Whittier law school, in California, and author of a book on the subject ("Holocaust Justice: the Battle for Restitution in America's Courts"), the insurance dispute has been the most intractable, in terms both of amounts paid and of claimants satisfied.

For many years, insurers denied the existence of policies, or acknowledged their existence but refused payment because policyholders' heirs could not produce official death certificates (a common circumstance for somebody who died in a concentration camp). Attempts to overcome such obstacles, notably the creation five years ago of an international commission to sift claims and make payments, have so far produced little.

For claimants, the most recent disappointment came in June, when America's Supreme Court ruled a Californian law unconstitutional. This law requires insurance companies doing business in the state to publish the names of people who bought life policies between 1920 and 1945 in countries swept up in the Holocaust. This would provide beneficiaries of those policies with two pieces of information crucial to the pursuit of a settlement: the possible existence of a claim; and which company may have issued the policy. Because insurance is regulated at state level in America, California's laws would normally hold sway. But the Supreme Court ruled against the state, 5-4, saying that its law conflicted with the right of the federal government to determine foreign policy. California has taken the rare step of asking the court for a new hearing. Two bills before Congress seek to bypass the Supreme Court's ruling.

Behind California's fight is a sense that a broader approach, endorsed by the federal government, the German government, European insurers and many victims' groups, is failing. In 1998, under pressure from American lawyers, Europe's biggest insurers and America's state insurance commissioners agreed to form the International Commission on Holocaust Era Insurance Claims (ICHEIC). The idea was to resolve long-running disputes faster and more cheaply than the courts would. Two years later, ICHEIC was included in the framework of an agreement between the Clinton administration and the German government that dealt mainly with slave-labour claims: in return the Americans promised to use their "best efforts" to keep ICHEIC-related cases out of court.

ICHEIC had an encouraging precedent, an organisation formed by Swiss banks to resolve claims on dormant bank accounts. The Swiss had gained credibility by recruiting an eminent American chairman: Paul Volcker, former chairman of the Federal Reserve. The insurers picked Lawrence Eagleburger, who had spent slightly less than two months as secretary of state under George Bush senior.

However, there were significant differences between the organisations. Mr Volcker served unpaid and used his position first to push for an independent investigation of the banks and then to approve a plan for distributing assets crafted by a federal court in New York. In contrast, the insurance companies never agreed to an independent investigation of their records, nor to have rules for payment approved by a court. Instead, the process is private, beginning with a submission of claims to the insurance companies, which determine both validity and value. An appeals process has been added through the appointment of special judges, but it too is a private procedure.

Numbers, numbers

Although ICHEIC is managed in Washington, DC, it is incorporated in Switzerland and claims are administered in London, to avoid exposure to American jurisdiction and disclosure requirements. It does not routinely release such information as the number of claims filed or paid, or the amounts disbursed. In early 2002 total expenses were reported to have reached $40m. More has certainly been spent since, but ICHEIC is cagey about releasing hard numbers. Meanwhile, only $41.5m has been offered in claims, and less accepted (the exact number is unavailable). Unlike Mr Volcker, ICHEIC's senior executives are paid, with Mr Eagleburger receiving $30,000 a month. All the commission's finance comes from the insurers, making it, in the words of Michael Mukasey, a federal district judge in New York, “in a sense the company store”.

Early on, Mr Eagleburger spoke optimistically about a rapid resolution of claims. Events have proved him wrong. Frank Kaplan, the lawyer representing California, told the Supreme Court in April that 77,000 claims had been submitted to ICHEIC but in less than 1% of the cases had an offer of payment been made. “These people are in a line to nowhere,” he said.

In ICHEIC's defence, Mr Eagleburger says that, even if the insurance companies had the best intentions, which they often did not, coping with the potential claims was a bigger project than anyone had expected. After more than four years and much effort, a claims and valuation process has been developed with far more relaxed standards than would be demanded by a court.

Last October, Remembrance, Responsibility and Future, a foundation acting on behalf of German insurers and foreign insurers with German subsidiaries, struck a deal with ICHEIC to establish a €102m ($100m) fund to cover claims and a €179m fund for humanitarian causes. Last month a similar, smaller agreement was reached with AXA of France and Zurich Financial Services and Winterthur of Switzerland for the policies they wrote outside Germany's then borders. The number of policyholders on ICHEIC's website has now reached 440,000, and should soon exceed 500,000. “That will be the most significant and complete list ever established,” says Mr Eagleburger, reflecting 95-98% of those insured. “We are moving fast now.”

Lots of claims have come from areas outside the Holocaust, such as Russia, Mr Eagleburger says, and so are ineligible. Others lack vital information. A special payment of $12,000 will be offered to people who cannot name a company or who cannot be matched up with a policy but can still make a valid case that there was a policy somewhere. The money available for compensation through ICHEIC is sufficient, he believes, to cover all claims, which are unlikely to exceed $100m.

This will probably be hard for many to accept. Mr Bazyler cites estimates of policies held by European Jewish families worth nearly $10 billion in current dollars. Allianz, a German insurer, he adds, has 1.5m policy documents and yet has released the names of only 250,000. Insurance was the favoured investment product of many families before the second world war, far more popular than stockmarket investments or bank savings accounts.

Undoubtedly, many policies did not survive the 1930s. Some were liquidated for a fraction of their value by Jews desperate to flee Germany. From 1938, laws in Nazi-controlled countries were changed to force Jews to disclose all property, including insurance; in 1941, outright confiscation by the state was permitted. Some companies were nationalised. Germany later paid some reparations. The legal consequences of all this are unclear. Many insurers contend that it means the beneficiaries should be suing governments, not companies. Beneficiaries retort that the insurers should pay and then seek

redress, if warranted, from those governments. In an ideal world, ICHEIC would have cut through all this.

Instead, there is once again an effort to turn to American courts. This is possible in cases against Generali, a big Italian insurer that before the war was the leading seller of policies in eastern European countries. Because it operated outside Germany, it is not covered by the Clinton administration agreements. Several years ago, William Shernoff, a lawyer in California, made a number of large settlements with Generali. Now he has 19 clients with claims to come before a federal court in New York. A few offers have been made, Mr Shernoff says, but for only a fraction of the policies' worth. Given the insurance industry's record, it is remarkable that anything has been offered at all.

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About sponsorship

Terror futures

A bet too far

Jul 31st 2003
From The Economist print edition

Futures markets meet two formidable foes: terrorists and politicians

AP

Ne faites pas vos jeux, Mr Wolfowitz

PREDICTING terrorism is a devilishly hard business. So it is perhaps no surprise that America's government should cast about for unorthodox ways to guess when the bad guys might strike next. One of the most eclectic routes that the Pentagon chose, creating an online futures market to enable punters to place bets on the odds, say, of a bioterrorism attack or the assassination of the king of Jordan, created a furore when Democratic senators got wind of it. The plan was cancelled on July 29th by the defence under-secretary, Paul Wolfowitz. (The Economist Intelligence Unit, a sister company of *The Economist*, supplied economic and political data to the plan's developer.)

Traditional intelligence work relies on gathering information and opinions from analysts and moles, not all noted for their accuracy. So the idea of a futures market must have seemed a good one, in theory at least. That is because markets work well at condensing the views of many people into a single probability for almost any event. Even in politics, they have come up trumps. Iowa Electronic Markets, a futures exchange for political and economic events, has done better than most opinion polls at predicting the outcome of America's elections.

More recently, the internet has given rise to a host of websites, such as TradeSports and NewsFutures, that allow punters to place bets on everything from the chances that Saddam Hussein will be confirmed dead by a particular date to whether Tony Blair will be ousted as Britain's prime minister by the end of September (current odds: 32%). All such exchanges rely on the principle that when people put their money where their mouths are, more and better information is brought forth. Why not, then, a market to bet on terror, especially if it might lead to better security?

Actually, there are plenty of objections. One problem with the proposed market is moral hazard. This refers to the risk that terrorists might profit from taking a flutter on their own plans for mayhem and thus, perhaps, encourage even more of it. The idea is repugnant, even though terrorists may be just as likely to throw authorities off their scent by placing big bets in an attempt to spread disinformation. Indeed, the latter concern was voiced by the senators who killed the Pentagon's plan. Another worry is that terrorists might use a futures price to learn when security is likely to be tightest, although government warnings should already have that effect.

The biggest outcry, though, seems to be over the idea of profiting from others' demise. Yet life insurance is a precedent of sorts. Last year, Goldman Sachs and Deutsche Bank started offering bets on the level of unemployment, allowing some traders, in effect, to profit from others' joblessness.

Leighton Vaughan Williams, a betting expert at Britain's Nottingham Trent University, recalls that such arguments were used against London sports-betting firms that offered odds on the outcome of the O.J. Simpson trial in 1995. As it turns out, the punters, for once, got it wrong: they thought that Mr Simpson would be found guilty of murder (he was cleared of the charge). No matter how good markets are at guessing the future, their sponsors have done a lousy job of predicting public distaste for such morbid gambles.

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Enron's bankers

Buying peace

Jul 31st 2003 | NEW YORK
From The Economist print edition

Citigroup and J.P. Morgan reach agreement with regulators

THE past year is widely perceived as a dry time for deal-making on Wall Street. This is patently wrong. The Street's leading firms have sewn up one deal after another—with prosecutors. The most recent, on July 28th, was struck between local and federal officials and two of America's largest banks, Citigroup and J.P. Morgan Chase. It covered their involvement with Enron and, in Citi's case, with Dynegy, another troubled (but not as troubled) Texan energy company.

Fines, “disgorgement” of profits and what-not brought the combined price tag to $308m. This is a lot, but it is small in comparison with Citi's profits ($4.3 billion in the second quarter) or with what Morgan might make in good times. According to the prosecutors, the two banks had provided ingenious financial structures and a vast quantity of credit, $8.3 billion, to Enron solely to obscure its true financial condition. The process was helped by the use of shell companies in offshore jurisdictions with strict secrecy laws. This practice, says Manhattan's district attorney, Robert Morgenthau, should be banned.

Nobody really knows whether the punishment fits the crime. As one regulator acknowledges, the fines (like those levied in the broader Wall Street settlement in April) were based on no particular economic logic. In routine criminal matters, fines are often double the illicit gains. But by some reckonings, Morgan lost money on its dealings with Enron, while Citi came out ahead only because it dumped its exposure on to unwary customers. These may now take revenge through civil litigation.

Nor does any clear principle apply to the allocation of the money. The New York district attorney's office gets $3m towards the cost of the investigation. In addition, New York City and New York state cop $25m apiece. The rest is earmarked for compensating investors. It can, however, be put towards the cost of private civil litigation over Enron. All this money and more will almost certainly be needed.

For the banks, the deal removes an important distraction from business. And because no individuals will be prosecuted, shareholders, not executives, will bear the costs. Yet the banks have suffered still more damage to their reputations. In settling, they have also conceded two legal points that they had long resisted.

The first is that, even though every element of a transaction they structured could be legal, the whole could be misleading enough to violate the law. The second, just as worrying, is that banks are responsible for how their clients use the fancy financial structures they create. This is consistent both with the Sarbanes-Oxley act, now a year old, and with rulings on Enron made by a federal court in Houston.

In another era, the banks might have prolonged the legal battle over these points. But after Enron's meltdown and other scandals, why risk even worse headlines? The share prices of both banks have been strong lately, maybe because regulatory threats have been receding. That said, the shares dipped a bit after the settlement was announced. Unexpectedly, both Citi and Morgan wrote letters promising excellent behaviour in the future. Perhaps that has rattled investors' confidence.

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Pensions in Russia

Start saving

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Privatisation looms

IN A country where male life expectancy is less than the retirement age, and the hardy survivors, after an increase on August 1st, get an average pension of just 1,901 roubles ($63) a month, it ought not to be a great challenge to keep the state pension system going. But Russia's rulers, like others who have promised workers some sort of a living in old age, always assumed that the taxes paid by the workers' children would cover the pledge. The snag is that there aren't enough taxpayers.

Russia's population, at just over 145m, has shrunk by nearly 2m since 1989, but nothing reveals the true extent of this demographic crunch as starkly as its effects on the pension system. Although male life expectancy since 1990 has fallen from 64 to 59, and female from 74 to 72, it is not pensioners who are dying younger so much as middle-aged Russians, struck down by disease, accidents and alcoholism. A dozen years ago there were 2.28 workers for every pensioner; last year there were only 1.74. This “coverage ratio”, low to start with, has fallen faster than almost anywhere else in the world. Within 20 years, says the government, it could be one-to-one.

Russia's solution, like the problem, is similar to those elsewhere: switch from a pay-as-you-go (PAYG) system, where today's workers pay today's pensions, to funded schemes, where they invest for their own futures. Russians already have over $2.5 billion in private pension funds (mostly company schemes that put the money into the employer's shares), but from August 1st asset-management firms are applying for the right to invest the state pension fund's money. Only those with enough experience and assets will be able to do this. By early September an approved list of firms will be ready, and from the start of next year workers will be able to choose one to manage their investments. In theory this is good not just for them, but for the economy, because pension money will pour into capital markets. This should be handy, because bank lending is weak and the markets are driven by a handful of big strategic investors.

As elsewhere, the PAYG system will keep running for several decades to support existing pensioners. Until then, each worker's pension contributions will be split between the old and new systems, with the new getting a gradually rising share. However, because Russia is poor, with a large shadow economy, endemic tax-avoidance and a lower retirement age than in many richer countries (60 for men, 55 for women), PAYG is a big burden. To start with, only 7% of a worker's contributions will be invested in his own pension, rising to 22% by 2006. Both Kazakhstan and Poland started with around 40%. Even so, according to Troika Dialog, a Moscow investment bank, there might not be enough in PAYG to keep up with pension payments. In that event, Russians' retirement age would eventually have to rise. This would be unpopular.

This, say the critics, means that the new system will initially be much like the old, but with more red tape. Many Russians, having been burned in pyramid schemes in the 1990s, mistrust investment and so will at first not choose a fund manager, but instead leave it to the state to invest their money. In Poland, where a similar reform was launched in 1999, the funded pension system's assets have grown to nearly 3% of GDP. Troika predicts that Russia's will take seven years to reach such a level. Andrei Ivanov, an analyst at the bank, says much of the privately invested money may go into government securities, not corporate equity or debt.

However, the new system could solve some old problems, by exposing cheating employers. Every day a million Russians are getting statements in the post, showing the pension contributions paid to the state on their behalf. “It's the first chance many people will have to see what their employers are paying for them. Many will discover that their company has not paid anything at all, and they will want to know why,” says Alexander Pochinok, the labour minister, with evident satisfaction.

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Japanese insurers

Ready for the next tsunami?

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From The Economist print edition

Non-life insurers may be more vulnerable than they look

THREE big earthquakes, one measuring around 6.2 on the Richter scale, struck north-eastern Japan on July 26th. More than 600 people were injured and more than 5,800 buildings damaged. A week earlier, torrential rain and mudslides killed 22 people, washing away houses and cars in rural areas of Kyushu, in the south of Japan. In Fukuoka, Kyushu's biggest city, the downpour flooded the main railway station and deluged hundreds of businesses for the second time in four years.

The bill for much of this will be picked up by Japan's insurers. Despite the rising cost of such events, however, the country's non-life insurers do not seem to be setting aside enough reserves to cover future disasters. Should a couple of huge catastrophes occur within several years of each other, there are concerns that some might have to dip into, and perhaps exhaust, their capital to cover the shortfall. The Financial Services Agency (FSA), the insurers' regulator, is worried. It wants to tighten rules on how to set aside reserves for natural disasters by April 2004, and is currently studying a report by an industry committee on what to do.

Japan's non-life insurance industry, which has assets of ¥33 trillion ($270 billion), is smaller, but healthier, than the country's deeply troubled life insurers. Like life firms, non-life insurers have suffered as stockmarkets have fallen and dented their share portfolios; but strict regulations have prevented them from making the poor credit decisions that have left life insurers and banks with enormous bad debts. Whereas life insurers were locked into long-term contracts with high pay-outs even though investment returns were plummeting, the non-life trade has been steadier. About half the industry's premiums come from car insurance, for which policies are renewed annually.

Yet in the past year or so, non-life insurers have been selling a growing number of long-term fire-insurance policies (which in Japan cover more general damage to property) that may commit them to huge pay-outs for natural disasters. Since deregulation in 1998, they have faced intense competition from foreign entrants. The car-insurance market is saturated. Meanwhile, the risk of fire damage has fallen because building materials have become more fire-resistant.

Rather than cut fire-insurance premiums, insurers have thrown in extra natural-disaster cover for the same price. Since restrictions were lifted in October 2001, insurers have been selling more fire cover through banks, offering 20- or 30-year policies to customers taking out mortgages. Because these policies are not rewritten annually, companies cannot bump up premiums every year.

However, insurers' reserves are linked to premium income, which has been falling, not to the risks covered, which are increasing. The non-life industry has around ¥800 billion of reserves for fire and natural-disaster insurance. Its biggest natural-disaster pay-out so far, after a typhoon in 1991, is ¥568 billion. Insurers think a similar typhoon now would cost ¥700 billion. A serious flood of the Tone river, just north of Tokyo and Japan's second-longest, would cost a lot more. Admittedly, reinsurers would pay something. But insurers have found reinsurance dearer and harder to get in the past couple of years.

So far the industry is not resisting the FSA's plans, though that might change if new rules requiring extra provisions pushed some firms into the red. In any event, the FSA has learnt from mistakes made in the 1980s by its predecessor, which ignored problems in the banking and life-insurance industries until it was too late. This time, the regulator seems determined to force non-life insurers to fix the problem while they still can.

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Economics focus

Hidden dangers

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The American government's accounts look about as reliable as Enron's

Get article background

IN BUSINESS, the penalties for poor book-keeping can be severe. The first principle of accounts is that they should present, as far as possible, a fair and accurate picture of an organisation's financial position. That means not only reporting a year's income and expenditure, and listing current assets and liabilities, but also setting out future obligations and sources of revenue. Executives who ignore these precepts risk being hauled before the courts for deceiving investors. Yet for all the vigour with which America's politicians have denounced the country's recent corporate scandals, it is not clear that the government's books are any fairer or more accurate than Enron's.

The government's accounts are drawn up on a cash basis. In the private sector, such a practice is followed only by firms such as consultancies, which have few assets to produce revenue over the long term, and few long-term liabilities. In such cases, cashflow is a good measure of prosperity. The government, however, reasonably expects to draw revenue from many of its assets, and from its citizens, for many years. It also has many obligations—for example, for Social Security and health care—stretching decades into the future. A fair portrayal of the government's financial condition should at least try to sketch what may lie ahead.

Among economists, there is a lively debate over how gloomy the true picture is. In a recent working paper*, Michael Boskin of the Hoover Institution argues that the federal government has lots of hidden assets. Some are tangible, such as its vast holdings of land and mineral rights. Others are intangible, the chief being, says Mr Boskin, tax-deferred savings programmes. As the baby-boom generation retires and draws down its 401(k) pension plans, claims his paper, the government can expect an extra $12 trillion in taxes (in present-value terms), which are largely absent from current projections.

Mr Boskin's paper has attracted a lot of fire, notably from Alan Auerbach, of the University of California, Berkeley, and William Gale and Peter Orszag, of the Brookings Institution†. Most of the savings he has found, they say, are already included in the government's projections. They say his model is too optimistic in several ways: it assumes, for example, much too high a tax rate on income from tax-deferred savings. Mr Boskin has now conceded that he made one mistake. He should, he says, have noted that the baby boomers' cashing out would reduce national saving, and thus corporate investment, profits and tax revenues. He says he is reworking his model to account for this. However, this deals with only part of the criticism. Pending Mr Boskin's revisions, his critics have the advantage.

Others are also trying to measure the budget gap. Last month the American Enterprise Institute published a paper by Jagadeesh Gokhale and Kent Smetters‡, which proposes two new measures to gauge the sustainability of the current budget. The first, fiscal imbalance (FI), calculates the difference between the present value of all the government's future obligations and its future revenues, assuming that policies remain unchanged. A sustainable budget will have an FI of zero. Otherwise American taxpayers risk a similar fate to that which befell Enron's shareholders when the company's hidden liabilities came to light.

Balancing act

However, an FI of zero does not guarantee that a budget is sustainable. A law that lavished new spending on today's citizens, but fully paid for it by levying a 90% income tax on everybody born after

this year, would have an FI of zero. It would not, however, be sustainable—future taxpayers would surely rebel—and it would also be monstrously unfair. So Mr Gokhale and Mr Smetters propose a second measure, which they call generational imbalance (GI). This is the difference between the present value of the spending to be done for the benefit of current generations and the present value of the tax revenues they may be expected to produce. The resulting number represents the bill that those alive today are handing on to generations yet unborn.

The results are staggering. The authors estimate that the money the government is promising to spend outstrips the taxes it can expect to collect by $44 trillion—20 times today's federal budget, and more than four times America's GDP. Their estimate of the GI is also enormous. Medicare (a health-care programme for old people) alone represents a net transfer of more than $20 trillion from future generations to those now alive. Mr Boskin's deferred tax assets are not likely to be much help. In their paper, Messrs Auerbach, Gale and Orszag reckon that any benefit from them is largely already included in the FI and GI calculations.

Like any private company teetering on the verge of insolvency, the American government must either find more revenue or cut spending. And the sooner the better, not just because it is unfair to hand the bill for today's spending to future generations, but also because the later that changes are made, the bigger they need to be. Mr Gokhale and Mr Smetters calculate that waiting until 2008 to repair the imbalance will turn the $44 trillion into $54 trillion.

As the late Herbert Stein, a noted economist, once said, “If something cannot go on forever, it will stop.” One way or another, America's budget gap will have to be closed. The question is, will it be done responsibly, by coming clean about the hidden liabilities now and taking the necessary, if painful, steps to deal with them? Or will the top management, like Enron's, stave off admitting the true state of America's finances until it is forced to do so by some spectacular collapse?

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* “Deferred Taxes in the Public Finances”

† “Reassessing the Fiscal Gap: Why Tax-Deferred Saving Will Not Solve the Problem”

‡ “Fiscal and Generational Imbalances: New Budget Measures for New Budget Priorities”

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About sponsorship

Holographic data storage

Light on the horizon

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After years of development, researchers are on the verge of using holograms to store data in memories that are both fast and vast

THE notion of holographic memory dates back to 1963, when Pieter van Heerden, a researcher at Polaroid, first proposed using the method to store data in three dimensions. In theory, it is a great idea. Existing media store data in only two dimensions. Adding a third would make storage devices far more efficient. But despite massive spending over four decades, a complete, general-purpose system that could be sold commercially has eluded both industrial and academic researchers.

It is still elusive. But it is getting closer. The first commercial holographic memory should be on the market next year, and more are expected to follow. When that happens, there may be a ballooning of computer storage capacity that will make existing disks look like leaflets compared with the Encyclopaedia Britannica.

A bit of illumination

Holographic data-storage works by recording the differences between two beams of laser light. The first is a reference beam that contains no information. The second carries data that it has picked up by being passed through a liquid-crystal panel known as a spatial light modulator.

Where the two beams intersect, they interfere with one another, and this interference pattern can be captured by the photosensitive molecules of a storage medium located in the overlap region. The result is a hologram, which can be read by applying a beam equivalent to the original reference. This produces a replica of the original data.

The real beauty of holography is that a huge number of holographic files can be stored in an overlapping manner in the same volume of photosensitive material. All that is required for this to happen is that the reference beam for each hologram must arrive at a slightly different angle from all other beams, or must have a different wavelength from those beams. Theoretical calculations suggest that it will be possible to use holographic techniques to store a terabyte (1,000 gigabytes) of data on a CD-sized disk. Today's

DVDs, by comparison, have a storage capacity of less than 20 gigabytes.

Moreover, holographic techniques permit the retrieval of data at speeds not possible with current storage methods. Transfer rates of a billion bits a second (at least 60 times faster than current DVDs) have already been demonstrated in the laboratory. Such fast access times are possible because the laser beams that are central to holographic technology can be moved rapidly, without inertia, unlike the components of a conventional disk drive. In short, no other storage technology in development can match holography's capacity and speed.

The challenge is to find the right recording material—a photosensitive substance that is both stable and cheap enough to use commercially. It is this search that has held up progress.

Making light of storage

Hans Coufal, who manages IBM's research on holographic data storage, says that his company has succeeded in ironing out most of the technical problems involved. The firm has evaluated several materials, including a crystalline substance called lithium niobate.

According to Dr Coufal, IBM has created a number of holographic “test platforms” at its Almaden research centre in San Jose, California. Although the medium in these platforms is three-dimensional, convention dictates that storage densities be recorded, as with disks, in bits per unit area as seen from above, rather than bits per unit volume. IBM's test platforms can store up to 390 bits per square micron (a micron is a millionth of a metre). DVDs, by contrast, have a storage density of about five bits per square micron.

IBM has also solved another long-standing problem with holography, which is bound up with parallel recording. Cross-talk noise, as it is known, causes faint images of all the files recorded to be called up even when only one is being accessed. Clever encoding and signal-processing algorithms can exorcise such ghosts.

Lithium niobate and its cousins are not favoured by everybody, though. Some companies prefer photosensitive polymers. In this case the material is deposited on the surface of a disk. The current aim is to produce a coating a few hundred microns thick. That is three-dimensional enough for holography, though making coatings thicker is still an important goal.

Polymers are more sensitive than lithium niobate but, as if to compensate, they tend to change volume when the chemical shifts associated with data recording take place within and between their molecules. This distorts the holograms. That is not a problem with lithium niobate.

Aprilis, a firm based in Maynard, Massachusetts, thinks it has found a way of having its cake and eating it too. Aprilis's polymer is an epoxy-modified silicone that does not, according to David Waldman, one of the firm's co-founders, change volume when it is recording. On the back of this knowledge, Aprilis is aiming to produce a drive with a capacity of 200 gigabytes and a transfer rate of 75 megabytes a second by 2005.

A third approach is being taken by InPhase Technologies, of Longmont, Colorado. InPhase aims to commercialise a polymer-based technology that it calls a two-chemistry system. This gets round the distortion problem by using a material in which the chemical processes that hold it together are separate from those that make it photosensitive. According to Chris Pfaff, one of the firm's directors, InPhase's prototype CD-sized disk, called Tapestry, can now hold about 100 gigabytes.

A fourth route is being taken by Polight Technologies, a firm based in Cambridge, England. Its disks are coated with a glassy material dubbed holonide, rather than with crystals or polymers. According to Michael Ledzion, Polight's boss, the first product to use this technology—a disk with a capacity of 500 gigabytes—should be available next year.

Disk driven

Such numbers are impressive, although, at least to start with, Polight's disk, like those of most of its competitors, will be “non-rewriteable”. In other words it will be useful for archiving things, but will not be

able to stand in for a hard disk, on which things are constantly changing. But that does not matter in the short term, because holographic storage is well suited to making archives. For, besides its ability to swallow huge amounts of data, the technology can spit it out in novel and useful ways.

In particular, searching a holographic store for a specific set of data is simple. Just as shining the appropriate reference beam produces a replica of the original data beam, so shining the appropriate data beam produces a replica of the reference beam. A beam that carries part of the original data will produce a weaker replica reference beam, making it possible to locate all the files that contain a particular set of data by shining in a beam containing that set and looking at the reference beams that come out. The intensity of each emergent beam indicates the degree to which the data stored in the file producing it match the target. Somebody sifting through a huge database could thus be directed rapidly to the best matches.

With the growing commercial interest in data-mining—which involves sifting through vast amounts of information in order to find useful relationships—this aspect of holographic memory is extremely attractive. Indeed, according to Dr Coufal, it was the cause of IBM's renewed interest in holographic storage.

It all sounds promising. Yet a lot of work still needs to be done before holographic storage becomes fully commercial. Meeting the exacting requirements for aligning lasers, detectors and spatial light modulators in a low-cost system remains a challenge. However, the recent availability of low-cost components, such as solid-state camera chips, from the rapidly maturing opto-electronics industry, has provided the devices needed to build holographic memories on a large scale.

On top of this, there is evidence that magnetic-storage technology may be approaching its limits, as the ever-smaller regions that store bits of information become less stable and harder to access. When this limit will be reached remains an open question. Some experts think that insurmountable barriers will be met in the next decade, but others have argued that these are still a long way off. In either case, though, something will be needed to plug the gap if progress is to continue. Holography may well be the plug of choice.

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Photography

Scanning the future

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A new type of digital camera

AT FIRST sight, the idea of making a digital camera that looks at its subject a single pixel at a time sounds insane. A pixel is one of the dots of which a picture is composed, so this would be like peering at the world through a moving straw. However, when a pixel can be captured in just 40 billionths of a second, the idea seems slightly less stupid. In one second, such a system could take 30 pictures with the resolution of a standard laptop screen.

Microvision, a firm based in Bothell, in Washington state, has developed a camera that works on this principle. Its speed stems from the fact that, instead of using ambient light, the camera illuminates its target. It does so using not a flash, but a laser beam (or, rather, three laser beams, one for each of the primary hues needed to build up a colour picture). These are scanned rapidly across the object being photographed. Because of its high intensity, the reflected laser light can be detected quickly—millions of times faster than in a conventional digital camera.

The core of the system is a tiny mirror made from a piece of crystalline silicon. This does the scanning. The mirror is moved around by a combination of electrostatic and electromagnetic “actuators”. Since the lasers, detector, mirror and lens can all be built into a unit a couple of centimetres in diameter, the camera starts out pretty small.

For endoscopy, the first application Microvision has in mind, this is a significant advantage. It is easier to stick something inside a patient if it is small. Indeed, the business end of the camera can be made even smaller for this application by delivering the laser beams through glass fibres, rather than generating them inside the patient.

More prosaically, Microvision's engineers hope that the new camera will make new applications of two-dimensional bar codes possible. At the moment such codes—which can carry a lot more information than the familiar one-dimensional codes found on packets of groceries and copies of *The Economist*—are used only for high-value products. The problem is that they are hard to read with a conventional camera when they are moving. Even a relatively small movement, say 2-3cm a second, blurs an image so much that it is unusable. The speed of the Microvision system eliminates such blurring. Tests show that crisp images can be produced even if a bar code is moving at 70cm a second.

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War, coltan and conservation

Digging a grave for King Kong?

Jul 31st 2003 | DURBAN
From The Economist print edition

Congo's gorillas are in trouble. But they may yet be saved

AP

Get article background

WITH people still killing each other in horrific numbers in eastern Congo, why worry about the destruction of a national park and its few hundred gorillas? Because, according to the Dian Fossey Gorilla Fund, one is closely tied to the other. To press the point, and to try to find a solution that helps both people and gorillas, the fund has just held a meeting in Durban, attended by representatives of rebel soldiers, local people, the park's authorities, mineral traders, conservationists and Congo's government.

In the past decade, thousands of people, both soldiers and civilians, have fled into the Kahuzi Biega National Park, a swathe of tropical forest near Congo's border with Rwanda. The refuge, a United Nations World Heritage Site, has duly suffered from forest clearance, charcoal burning, hunting and harvesting. Its 10,000 plant species, 220 bird varieties and 131 kinds of mammals are threatened. Of the 350 elephants living there five years ago, all but two have been killed for meat and ivory. And although most locals have long refused to kill or eat gorillas, gun-carrying refugees have no such scruples. Poaching and the clearance of bamboo, a favourite food, have cut a population of 258 gorillas in the park five years ago to some 110 now. Of 17,000 gorillas counted in the whole of eastern Congo in 1999, perhaps no more than 1,000 remain.

But war alone is not responsible. Or, more subtly, one of the causes of the war is also a cause of deforestation. Coltan (colombite-tantalite, to give its full name), is a valuable mineral spewed out by the local volcanoes. It is found scattered widely over the area, including in the park. That means it is well suited to exploitation by small groups of “artisanal” miners such as those in the picture above. These people need space to live in, fuel and food, which puts further pressure on the forest.

Tantalum oxide, which is extracted from coltan, is used to make some of the electronic components in mobile phones, computers, hand-held games and pagers. Tantalum is also used in jet engines, car air-bags, surgical instruments and other gadgetry. Demand for coltan has thus mushroomed over the past decade, pushing prices to a peak of $840 a kilo in 2000.

This demand lured 12,000 people to Kahuzi Biega, where they could earn a princely $80 a day with just a pick, a shovel and a sieve. Since then, the price has slumped to less than a tenth of its peak, and a lot of people have left. From the conservationists' point of view, therefore, this is a good time to act—so that

when the price does go up again (as it is expected to), returning miners can be encouraged to do their digging outside the park.

Over the past two years conservationists and the United Nations have tried to stem demand for Congo's coltan, telling companies to get the mineral elsewhere. The UN has said that any trade with rebel-held parts of the country is illegal and must stop. Last year European activists, who complained of “blood on their handsets”, persuaded Nokia, Motorola and other users not to buy their coltan from Congo. Even Arthur C. Clarke, a science-fiction writer, and Leonardo DiCaprio, a film star, have thrown their weight behind the campaign.

But coltan is coltan. It does not come with a “country of origin” label on it, so the embargo is a leaky one at best. In any case, as Kevin d'Souza, a mining consultant who reported in April on the state of the park on behalf of the Dian Fossey fund, puts it, those who push for a ban on Congo's coltan trade have “misdiagnosed the real problem”. They have failed to consider the needs of miners, hungry ex-farmers and displaced people, who must find some way to survive. If they are stopped from mining, these people may turn to more destructive activities, such as hunting for “bushmeat”.

Instead, says Mr d'Souza, the miners should be helped to look for deposits of coltan outside the park, and to find ways of working that are less destructive to the forest. Food aid, micro-credit, training and gifts of farm tools and seeds could persuade them to give up digging inside the park. Delegates at the meeting in Durban also talked of setting up a pilot project near the park, to show miners how to work more profitably by using proper equipment and forming co-operatives.

Getting everybody to recognise that the park will not be safe until the local people feel more secure is a useful start. At least as important, the men with the guns may be changing their minds, too. This week the government gave details of a new mining code for the country, which would protect the park but encourage more mining elsewhere. Meanwhile the rebels have been saying for a while (although they cannot yet prove) that they have ordered mining and gorilla hunting to stop in the park.

In part, that is because both sides are slowly coming to realise that protection of the park and its resources will bring more benefits to them than will its destruction. Indeed, some people think that the coltan traders could make the gorillas an asset. Bill Gates and several other hi-tech tycoons are keen gorilla spotters. They might arrange for payment of a premium on coltan from well-run Congolese mining sites (outside the park), and could then exploit the sort of consumer sentiment that drove the “blood on their handsets” campaign to sell “gorilla-safe” gadgets, rather as supermarkets sell “dolphin-safe” tuna. If this happened, everybody would have an interest in making the park secure. King Kong could yet avoid being buried.

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The environment

Squaring the circle

Jul 31st 2003
From The Economist print edition

Still Pictures

Can mankind head off an eco-apocalypse?

HALF a century after the cold war, Sir Martin Rees, a 61-year-old veteran of the anti-nuclear movement believes that the world came closer—and more often—to the brink of thermonuclear destruction than most people realise. Could it happen again? More broadly, could man, even unwittingly, unleash a chain of events that destroys the natural environment, and ultimately humanity itself?

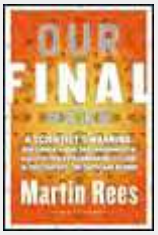
The debate over how to safeguard our world is not limited, of course, to disaster scenarios. Conservationists, politicians and scientists of every hue continue to hold forth on mankind's environmental depredations. For Sir Martin, a respected Cambridge University astrophysicist and Britain's Astronomer Royal, the emphasis is on warning; for others it is the more difficult task of trying to devise prescriptions.

The spectre of a terrorist attack or an accident involving bio-organisms or nanotechnology so concerns Sir Martin that he is ready to wager $1,000 that 1m people die as a result of a single horrendous act by 2020. In addition to threats from disgruntled misfits or religious radicals, he worries about the destruction of the natural environment that may result from broader policy choices made by society. And he is particularly concerned that the current pattern of industrialisation, urbanisation and motorisation might fuel climate change and biodiversity loss on such a scale as to lead to environmental disaster.

However, unlike most dystopian works, which are often melodramatic and misleading, “Our Final Century” is lively, informative and often witty. Sadly, the same cannot be said about “The Wealth of Nature”, a provocative but unsatisfying work by Robert Nadeau, who teaches at America's George Mason University.

Mr Nadeau believes that the world is already in the throes of an environmental

Our Final Century. A Scientist's Warning: How Terror, Error, and Environmental Disaster Threaten Humankind's Future in This Century—On Earth and Beyond
By Martin Rees



Basic Books; 228 pages; $25 and £18.99

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Amazon.co.uk

The Wealth of Nature: How Mainstream Economics Has Failed the Environment
By Robert L. Nadeau

disaster of man's making. Conventional economics, he says, making a play on Adam Smith's “The Wealth of Nations”, is not very good at valuing nature and “cannot introduce the incentives necessary to a sustainable global environment.” He dismisses recent efforts by environmental economists to put “a green thumb on the invisible hand”: first in Scandinavia, and now in many countries, governments are imposing effluent taxes and other market-friendly reforms to help reduce pollution. He also dismisses similar efforts by ecological economists—cuddlier, philosophically greener versions of environmental economists—as ultimately destined to fail.

It is easy for Mr Nadeau to scoff at the prospects for greening Adam Smith's hand, but in fact market-based environmentalism may well be the best hope for reconciling future economic growth with the need to preserve nature. That is certainly the view of a distinguished group of scientists, economists and other conservation experts assembled by the Royal Society, Britain's premier scientific body. In “Capturing Carbon and Conserving Biodiversity: The Market Approach”, the boffins examine various challenges involved in dealing with two of the biggest environmental problems: global warming and biodiversity loss.

Crucially, they argue that turning to market forces can help solve both problems at once. By putting an economic value on the neglected “ecosystem services” provided by forests, such as their ability to absorb carbon from the atmosphere, they argue that both deforestation and climate change can be dealt with. That is not to say that the market-friendly approaches advocated in this book are cure-alls. There are still plenty of problems to overcome. One example is that scientists still do not fully understand how and how fast different trees absorb carbon as they grow, making accurate measurements particularly difficult to calculate.

Columbia University Press; 260 pages; $29.50

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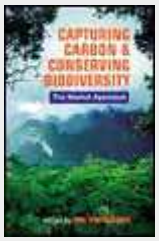
Capturing Carbon and Conserving Biodiversity: The Market Approach
Edited by Ian Swingland



Earthscan in association with The Royal Society; 393 pages; $79.95 and £55 (hardback), $32.50 and £19.95 (paperback)

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Even so, explains Ian Swingland, who edited this collection of articles, this approach is far more promising than the failed conservation approaches of the past that relied on “a donation-driven western culture permeated by the idea that so-called expert and political committees could and should plan what should happen, and draw lines on maps as boundaries between people and the rest of the animal and plant world. Well-meaning it may have been, but disastrous it has proved.” In arguing that “biodiversity can pay for itself through benign systems of sustainable extraction, where people can receive some equitable share by right, not patronage,” Mr Swingland and his co-authors make a compelling case that the best way to reduce the risk of any potential eco-disaster is to embrace market greenery.

The future may be brighter than the eco-doomsayers suggest. One reason is that man has more power to influence that future benignly—through innovations in technology and economic policy—than some suggest. Another is that it is simply wrong to imply that most environmental indicators suggest an environmental disaster is imminent. Inspect Sir Martin's work closely, for example, and you find that he is careful about his language and predictions: unlike many greens (and, it must be said, Mr Nadeau at times), who adopt the alarmist tactic of giving only the shocking high end of forecasts of potential global warming without mentioning the low end of the forecast, Sir Martin tends to give ranges and add appropriate qualifiers and caveats. The Cambridge academic is also very wary of the so-called precautionary principle, a misguided pseudo-philosophy invoked by greens to stifle innovation in areas like genetically modified foods.

So how does he justify his suggestion that mankind might have only a 50-50 chance of surviving the 21st century—our final century, to use the alarmist title of the book? Even before your correspondent could ask him that question at a recent literary event, Sir Martin confessed to being a fan of Bjorn Lomborg—a Danish academic who recently caused some controversy when he suggested that greens have been systematically distorting the fact that the environment has been getting healthier in many countries.

Sir Martin then took the reviewer's copy of “Our Final Century” and pencilled in a question mark after the title. His publishers had ruled it out. The American publishers even changed the title from “Our Final Century” to “Our Final Hour”. Sir Martin is clever enough to know that the end is not nigh, but he put up with the chicanery in order to gain a wider audience. A small sin, perhaps, in such an important book.

Our Final Century. A Scientist's Warning: How Terror, Error, and Environmental Disaster Threaten Humankind's Future in This Century—On Earth and Beyond.
By Martin Rees.
Basic Books; 228 pages; $25 and £18.99

The Wealth of Nature: How Mainstream Economics Has Failed the Environment.
By Robert L. Nadeau.
Columbia University Press; 260 pages; $29.50 and £20.50

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Asia's environmental challenges

How green is my tiger?

Jul 31st 2003
From The Economist print edition

JAMES FAHN is too honest a reporter not to acknowledge that there is more to the destruction of Thailand's environment than greedy businessmen, corrupt politicians and selfish foreigners, though there is no shortage of these in “A Land on Fire”.

Ordinary Thais themselves are also responsible, willingly selling their land to property developers in order to buy their coveted cars, or burning down their mangrove forests to sell the wood as charcoal and the space for tiger-prawn farms. Mr Fahn, a former reporter on *The Nation*, Thailand's excellent English-language daily paper, is also honest enough to admit that, for most Thais, at least in broad economic terms, life is much better than it was 20 years ago. And he reminds us of the Kuznets curve, which predicts that a degree of environmental deterioration is normal for a country in the process of developing: money can later be found to clean up the mess.

What is missing from the book is a sense of how this is already beginning to happen, in Bangkok at least. Thanks to the construction of expressways, a new elevated mass-transit system and tougher controls on car emissions, Bangkok's streets today are far less congested, and its air strikingly less unpleasant, than ten years ago.

Much the same thing happened in Tokyo a few decades earlier, and in Europe and America before that. Thailand's forests, rivers, coasts and air, as Mr Fahn doughtily chronicles, have been victim to great brutality. Monstrous tourist seafronts have grown up along what were once secluded beaches, just as happened in much of southern Europe. But self-interest dictates that, in time, Thailand, too, will save itself from the worst of its pollution.

A Land on Fire: The Environmental Consequences of the South-East Asian Boom.
By James David Fahn.
Westview Press; 365 pages; $27.50 and £20.99

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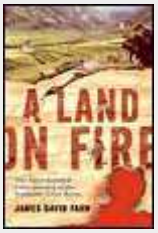
By James David Fahn



Westview Press; 365 pages; $27.50 and £20.99

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About sponsorship

The struggle for civil rights

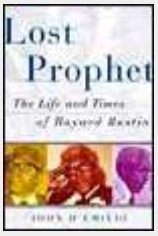
Eminence rose

Jul 31st 2003
From The Economist print edition

BAYARD RUSTIN'S life is a classic example of the law of unintended consequences. A powerful behind-the-scenes activist, Rustin was a public nobody until Strom Thurmond, a racist senator from South Carolina, sprung a dirty trick to discredit Martin Luther King's I-have-a-dream march on Washington, DC, in 1963. A fortnight before the event, Thurmond announced that Rustin, its organiser, was a "sexual pervert" with a prison record.

In those homophobic days, Thurmond's revelations posed a terrible dilemma for the leaders of the march who were demanding civil rights for black Americans. They had either to limit the damage by distancing themselves from a promiscuous homosexual or rally to his defence. After some wobbles, they did the decent thing, and their praise of Rustin elevated him into an instant celebrity. As it turned out, Rustin and the civil-rights movement were strengthened rather than damaged by the episode. It was, Rustin said long afterwards, the best favour that Thurmond could have done him.

Lost Prophet: The Life and Times of Bayard Rustin
By John D'Emilio



Free Press; 560 pages; $35

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Yet Rustin had more influence on the civil-rights movement before the 1963 march, when he was an operator behind the scenes, than he did after he became a prominent activist. As John D'Emilio tells it, the greatest achievement of this gay Quaker pacifist was to help persuade a movement dominated by militant leftists and macho Baptists to adopt the tactics of non-violent civil disobedience.

Yet when he worked to keep white liberals in the civil-rights coalition, Rustin was labelled an Uncle Tom by younger, less patient blacks. The antipathy was mutual. Rustin could barely conceal his contempt for the posturing of such radicals as Stokely Carmichael. Calling for fewer slogans and more political thought, he said: "Wearing my hair Afro style, calling myself an Afro-American and eating all the chitterlings I can find are not going to affect Congress." He was just as dismissive of extreme African nationalists. "Africa", he said, "may reach independence but miss freedom. A change of exploiting leadership from white men to black men is not worth the struggle."

Less admirably, Rustin was also a fantasist. Many of the stories he told about his life were untrue or contradictory. He sometimes claimed, for instance, to have left Wilberforce University over rows about the college's compulsory military training and at other times that he was expelled for organising a student strike against poor food. His boasts about his threadbare boyhood must have caused his respected, middle-class family to cringe a little. His biographer, an historian at the University of Illinois, has done a wonderful job in sifting out the truth of Rustin's life from the fiction, and in celebrating the man's extraordinary physical and moral courage.

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John D'Emilio
Free Press; 560 pages; $35

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About sponsorship

78,000BC

Small crowd crosses straits

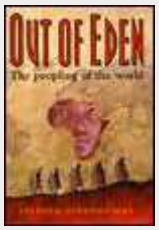
Jul 31st 2003
From The Economist print edition

It all began when man swam the Sea of Djibouti

WHEN James Watson and Francis Crick first described the double-helix structure of the DNA molecule 50 years ago, they cannot have imagined what a powerful light it would throw upon our past. Secrets once destined for the grave are nowadays exposed in no more time than it takes to analyse a swab or two. DNA-based paternity kits can be purchased over the internet for less than $250. Americans and Europeans of Afro-Caribbean origin can find with remarkable accuracy where in Africa their DNA came from, and then take a trip to meet their long-lost cousins.

DNA has also helped to show Afro-Caribbeans that they are not alone in having ancestors who came out of Africa. We all came out of the dark continent, it seems, every single one of us—though the time and place of our exodus are still the subjects of furious academic debate. Stephen Oppenheimer's book attempts to resolve this particular mystery. Mixing archaeology, anthropology, palaeontology and genetics, he claims that “there was only one main exodus of modern humans from Africa”, and it took place 80,000 years ago across the narrow straits between present-day Djibouti and Yemen.

Out of Eden: The Peopling of the World
By Stephen Oppenheimer



Constable; 440 pages; £18.99

Buy it at
Amazon.co.uk

Plunging so boldly into this contentious area, Mr Oppenheimer has had to keep one eye out for his academic audience. Nevertheless, this is a very accessible account of the genetic journey of homo sapiens—out of Africa and into India, beachcombing his DNA around the then contiguous landmass of south Asia and Indonesia, facing a threat of extinction from the explosion of the Sumatran volcano Toba around 74,000 years ago, the biggest bang the globe has ever heard, before making the leap across to Australia. And all this before he ever plonked a single gene in either Europe or America.

It is, of course, a white supremacist's worst nightmare. Not only is he closely related to Australian aborigines, but they, it seems, were creating sophisticated rock art while his ancestors were still groping their way over the Taurus mountains. Lascaux and Chauvet came much later. At times, Mr Oppenheimer seems unduly concerned not to offend those who want to believe that each racial grouping has, as it were, its own Adam and Eve with their own ethnic pecking order.

For the rest of us, does this version of our origins change anything? In a BBC documentary shown earlier this year (“Motherland: A Genetic Journey”), the producers tried to lift the veil of slavery by taking three Britons to Africa to meet their distant cousins. On returning to Europe, one comments that he is happy “that I can put my finger on a map and say that is where my people came from.” Research by Mr Oppenheimer and others has now given us all the right to say that.

The BBC's film features an articulate American scientist called Fatimah Jackson. Wrapped throughout in a green silk chador, she asks at the end whether we really want “to give up our identity to a geneticist with a pipette”. Perhaps one should not want that. But Mr Oppenheimer's book—and, indeed, the BBC's film—is undeniably a much more entertaining account of our identity than the versions offered by sundry shrinks or philosophers.

Out of Eden: The Peopling of the World.
By Stephen Oppenheimer.
Constable; 440 pages; £18.99

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New fiction

All tucked up

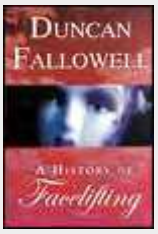
Jul 31st 2003
From The Economist print edition

DUNCAN FALLOWELL has written three novels, two travel books, a biography of a trans-sexual showgirl and a libretto for “Gormenghast”. His readers have learnt to expect the unexpected.

His latest offering, “A History of Facelifting”, has nothing at all to do with cosmetic surgery. The novel is set at an unspecified time in the near future and concerns a government plan to build a vast “City of Cognitive Neuroscience” on the site of an ancient stone circle near the village of Milking Magna. Simultaneously, the village's grandest landowner, a cheerfully obese pederast known to his friends as JJ, tries to stave off bankruptcy by turning his stately pile into a conference centre.

Beyond that, the novel is pretty well summary-proof, entailing a series of wildly improbable coincidences and reversals; plus births, deaths and rubber body parts, a long-lost volume of poems by Leonardo da Vinci, and some charming echoes of “The Importance of Being Earnest”.

A History of Facelifting
By Duncan Fallowell



Arcadia Books; 354 pages; £11.99

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Amazon.co.uk

At one point JJ and a group of friends ask a teenager the way to a nightclub. Having pointed the toffs in the right direction, the unnamed youth ambles off alone into the night. But Mr Fallowell does not let him off the hook that easily. “The window of opportunity, which had briefly opened to him, did not do so again and the young man, good-looking, good-natured, but fearful of the unknown and lacking any sort of enterprise, lived a life of growing despondency and beer and crisps and cigarettes and died of bowel cancer in early middle age.” It is this sort of glorious, gratuitous profusion of detail that makes “A History of Facelifting” such an oddly engrossing read.

A History of Facelifting.
By Duncan Fallowell.
Arcadia Books; 354 pages; £11.99

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About sponsorship

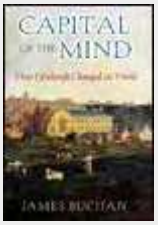
Edinburgh

Portrait of a city

Jul 31st 2003
From The Economist print edition

IN SEPTEMBER 1745, some 1,900 Highlanders marched up the streets of Edinburgh and took Scotland's capital city. Two British regiments fled. A volunteer force—among its ranks some of the great thinkers who would later stamp the city's mark on the century—abandoned any attempt at resistance amid confusion in the streets. The tall, handsome Prince Charles Edward Stuart, seeking the throne for his exiled father, King James, set up camp in the city where the ladies encircled his tent to gaze at him, enraptured.

Capital of the Mind: How Edinburgh Changed the World
By James Buchan



John Murray; 448 pages; £20

Buy it at Amazon.co.uk

Although the Stuarts failed in their bid to seize the throne, for Edinburgh this was an unheroic, though crucial, episode. As James Buchan argues, it was the defeat of the Jacobites that helped set Edinburgh free and speed its progress.

Mr Buchan's portrait of the Scottish capital in the 18th century begins with a top-to-bottom evocation of this shambolic, raucous and frankly smelly place. His account of how the ugly duckling emerged in the late 1780s as the refined and respected centre of European intellectual life is as much woven as it is written. The story shuttles forwards and then back upon itself, adding details of the city's advances in religious thought, philosophy, medicine, literature, the status of women and, as Edinburgh spread elegantly into the New Town, in scale.

Mr Buchan, a novelist and critic, excels at the dramatic action surrounding the capitulation to the Jacobite prince. In the more gently paced chapters on such intellectuals as David Hume and Adam Smith, he combines deft broad strokes with intricate detail, shading in apparently dry subjects with innumerable and delightful anecdotes that bring the old city to life.

For such a learned history, Mr Buchan has a clear writing style, a light touch and an irreverent sense of humour. Faced with attack, a city meeting proposes to raise a regiment, but writes Mr Buchan, “Edinburgh being Edinburgh, there were lawyers present, and the lawyers raised an objection.” As a result, while the Highlanders advanced, Edinburgh waited a patient week for a royal licence to be sought and granted by London.

Although he uses an impressively broad range of sources, Mr Buchan makes difficult subjects accessible and, sometimes, poetic. He contrasts Hume's assertion that the mind could be perfectly known with modern philosophy's opposite conviction that “the mind is not a natural scientist's laboratory but a badlands, riddled with metaphor and crossed by fugitive images, possibly non-existent, best kept out of bounds.”

Grounded so deeply in the Edinburgh of then and now, this is a history book with which to walk the streets. Mr Buchan acquaints us with the 18th-century city in every way—its buildings, its economy, its feelings and its politics—without skimping on its affectations and missteps, such as its championing of Highland epic poetry that turned out to be a literary fraud. His acute pen-portraits introduce us as much to its learned men as to their work.

This journey through the attitudes and minds of a vibrant and sometimes wrong-headed intellectual elite, however, does not entirely satisfy the book's sensationalist sub-title: “How Edinburgh Changed the World”. The big picture—the thread leading from Bonnie Prince Charlie, through all the debate at buzzing Edinburgh tea parties, to the creation of “modernity itself”—is sometimes faint. Yet this evolving Edinburgh is so entertainingly drawn that meandering through it is quite satisfying enough.

Capital of the Mind: How Edinburgh Changed the World.
By James Buchan.
John Murray; 448 pages; £20

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About sponsorship

Kenneth Branagh

Not just a blonde wizard

Jul 31st 2003
From The Economist print edition

Forget the play, go for the acting

YOU have to hand it to Kenneth Branagh: he does nothing by halves. In his last outing on the London stage, over a decade ago, he played Hamlet in a full four-hour-plus staging of the play by the Royal Shakespeare Company. Now, he is back and playing another fearsomely complicated character, an enraged Manhattanite called Edmond, whose name gives the play its title.

David Mamet's work, running a scant 75 minutes, is short enough to fit into “Hamlet” three times over. Yet it is scarcely less concerned with big themes—there is much talk of signs, as in human destiny and fate—and large-scale displays of emotion. And as he did with Hamlet's great Dane, Mr Branagh gives the degraded Edmond his all. If only the play, now in revival at the National Theatre's Olivier auditorium, returned the compliment.

Partly, the problem is one of venue. A play that is implicitly about claustrophobia is oddly served in the vast reaches of the Olivier, the largest of the National's three spaces. In its London debut in 1985 at the Royal Court's studio-sized Theatre Upstairs, the play throbbed with the nervy energy that comes with feeling as if the theatre space itself were closing in around you. As reconceived this time by Edward Hall, an episodic play benefits from countless scene changes, some of them quite clever, and from a cast of 20 of the sort that only the heavily subsidised National Theatre can these days afford. But the effect dissipates the potential impact of a play that now looks as if it is having an awful lot of stuff thrown at it. “Edmond” may once have seemed punishing; suddenly it looks oddly puny.

Nor has time necessarily been kind to Mr Mamet's scabrous vision of a New York populated by hookers, junkies, and sodomites, all of whom victimise the increasingly abject, angry Edmond—or become his victims in return. Two decades on from its off-Broadway premiere, “Edmond” isn't shocking as much as simply posturing.

All credit, then, to Mr Branagh, who lays himself emotionally bare—and, at one point, physically too, appearing naked from the waist down during an extended scene. While Mr Mamet in no way sets up the character's hairpin shifts in mood (barely speaking one minute, Edmond is hurling imprecations and abuse the next), Mr Branagh animates every fulminating step in Edmond's fall from grace, including a redemptive jail-cell encounter that's a little overripe.

For the star's central performance alone, “Edmond” deserves to be the summer's sell-out, though a word of warning: for all its avowed attention to pain, the play is actually pretty silly.

“Edmond” is at the Olivier Theatre, London, until October 4th. Tickets from www.nt-online.org

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About sponsorship

Bob Hope

Jul 31st 2003
From The Economist print edition

EPA

Leslie Townes (Bob) Hope, comedian, died on July 27th, aged 100

THE song most associated with Bob Hope was “Thanks for the Memory”, which he first sang in a film called “The Big Broadcast” in 1938. He made it his theme tune, adapting its originally bittersweet words to the needs of the time. So in the second world war he was introducing his act with, “Thanks to our brave allies/ You gallant Russian bear/ You British everywhere...” As Russians became less gallant and British influence shrank, the words were changed. Topicality was always one of his strengths. But Bob Hope himself seemed to remain the same.

He belonged to a period that retains a persistent nostalgia sustained in the memory mainly by old films on television: a period, say, from the 1930s when he was building his career, followed by the war years when he made “The Road to Morocco” with Bing Crosby, the best of the “Road” series, and touring the world to raise the spirits of millions of American soldiers as they prepared for combat; and after the war making numerous films, mostly duds, saved only by his brilliance.

So, he had a notably creative period of perhaps 20 years, from age 30 to 50, although he worked on into old age. Ask a teenager about Bob Hope and it is quite likely, and understandably, that the response will be a shake of the head. The *Daily Telegraph*, a London newspaper that tries to please the young as well as its loyal readership of old fogies, devoted six pages to George Harrison, a Beatle (Obituary, December 8th 2001), but allocated a mere two pages to Bob Hope. But mention Woody Allen to a teenager; no problem. It would be unfair to say that he is a copy of Bob Hope, but he is one of a generation of comedians who learnt from him. He once said, “When my mother took me to see ‘The Road to Morocco’ I knew exactly what I wanted to do with my life.” His idea of a “weekend of pure pleasure”, he said, would be to watch half a dozen Bob Hope films. He “combined a thin story with great jokes”. The jokes were indeed often good. Bob Hope said he was the first comedian to admit that he employed a team of scriptwriters to keep him supplied with new material. “Other comedians fostered the illusion that all those funny sayings came right out of their own skulls.” But it was the way the jokes were told that mattered.

A test of nerve

Bob Hope was much praised for his timing. You could write a thesis about timing. Henri Cartier-Bresson's

photographs are beautifully timed, capturing the telling moment. Michael Vaughan, England's present cricketing hope, has match-winning timing, judging to the instant when to send a hurtling ball soaring to the boundary. Bob Hope had this kind of gift. Perhaps there is a gene for it. It takes nerve to hold your audience in suspense for microseconds until you judge it is ready for the punchline. For Bob Hope the talent always seemed to flow easily, even on occasions when he was not on stage. “I feel very humble,” he said to President Kennedy when he was being presented with a gold medal for “services to his country”. Then the follow-through that sent laughter through the White House: “But I think I have the strength of character to fight it.” Bob Hope's material was not hurtful or obscene. That style had to wait for a later generation of comedians.

Even a good gene has to be encouraged. He was born in England, the fifth of seven sons of a hard-up stonemason who brought his family to America when Bob was five and settled in Cleveland, Ohio. There seems to have been little formal schooling. While in his teens he made a start in showbusiness in what the Americans call vaudeville and the British call variety, an overcrowded profession with some 20,000 performers in competition, many of them ambitious “foreigners” like Bob Hope. At one time he was doing four shows a day, followed by a stint at a nightclub. In “The Cat and the Canary”, a film he made later, a character asks him if big, empty houses scared him. In a line that Bob Hope may have written himself he replies, “Not me. I was in vaudeville.”

Whatever the size of the audience, being a stand-up comedian, alone on the stage in front of an audience that may or may not be friendly, with only a microphone to hold on to, is agony if you flop, and ecstasy if it likes you. That was his schooling. Broadway and the movies were to follow. It should be said that there were others who had the same polished timing, notably Jack Benny. It was a fortunate time for American audiences, with great entertainers, gifted songwriters and novelists such as Ernest Hemingway who were breaking new ground.

Bob Hope never won an Oscar, although he was awarded several honorary ones. He received 54 honorary degrees, while some 500 towns presented him with their keys. Britain made him an honorary knight. He stayed married to one woman for 69 years, and they lived in the same house for 60 years. They adopted four children. He made loads of money, invested it wisely and gave much away to charity. Almost no one had a bad word to say about him. Marlon Brando once grumbled that Bob Hope would go to the opening of a phone booth in a petrol station as long as he could play to a camera and three people. He was, Brando said, a junkie for applause. But isn't everyone?

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Overview

Jul 31st 2003
From The Economist print edition

American consumer confidence dropped unexpectedly in July, according to the Conference Board's index. Rising unemployment was said to be responsible. New-home sales rose by 4.7% to 1.16m in the 12 months to June, a record. The housing market's buoyancy was also reflected in the prices of existing homes, which rose by 7.7% over the year to June.

Germany's IFO business-climate index rose from 88.8 in June to 89.2 in July, its third consecutive increase. Although businesses remain downbeat about current conditions, planned tax cuts and signs of a pick-up in the American economy boosted expectations of a recovery in the fourth quarter. Consumer confidence also rose, for a fifth successive month. But consumer-price inflation fell to 0.9% in the 12 months to July.

The **euro area** recorded a current-account surplus of €2 billion ($2.3 billion) in May, compared with a €3.4 billion surplus a year ago.

Italian producer prices fell by 0.1% in June, giving an increase of 1.5% over 12 months. Consumer-price inflation was steady at 2.6% in the year to July.

French housing starts rose by 0.3% in the year to the second quarter. Strikes and unexpected weather have postponed some starts.

Preliminary estimates show that **Britain's** GDP grew by 0.3% in the three months to June, giving a growth rate of 1.8% in the past 12 months. The figures are weaker than expected and may be revised up as a result of strong retail sales and rising government spending. June's good weather kept consumers shopping, causing monthly retail sales to grow by 1.9%, after a 0.2% fall in May. Britons financed their shopping spree by taking on record levels of debt. Borrowing rose by £10 billion ($16 billion) in June, pushing household indebtedness to 120% of disposable income. Mortgage lending also rose by £7.8 billion in June, the largest monthly increase since the series began in October 1986.

Japanese unemployment fell to 5.3% in the 12 months to June, the first drop in four months. Lower unemployment boosted workers' household spending, which rose by 4.8% in June, the biggest monthly gain since 1984. Consumer-price deflation also slowed to 0.4% in the year to June, from 0.7% last year. But industrial production fell by 1.2% in June.

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Output, demand and jobs

Jul 31st 2003
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2003	2004	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.9	Q1	+ 2.8	+ 2.8	+ 3.5	nil	Q1	+ 4.0	Q1	6.1	Jun	6.5
Austria	+ 1.3	Q4	– 0.5	+ 0.5	+ 1.3	– 1.5	Dec	+ 7.4	Apr	4.4	Jun	4.3
Belgium	+ 1.4	Q1	+ 0.7	+ 0.8	+ 1.6	– 3.8	May	+ 1.7	May	11.6	Jun†	10.4
Britain	+ 1.8	Q2	+ 1.3	+ 1.8	+ 2.5	– 2.6	May	+ 6.0	Jun	5.0	May††	5.2
Canada	+ 2.6	Q1	+ 2.4	+ 2.3	+ 3.0	– 0.5	May	+ 1.4	Apr	7.7	Jun	7.5
Denmark	+ 1.2	Q1	+ 1.4	+ 1.0	+ 2.0	– 0.8	May	– 1.2	Apr	6.0	May	5.1
France	+ 1.1	Q1	+ 1.1	+ 0.8	+ 1.9	– 1.5	May	– 2.0	May	9.5	Jun	9.0
Germany	+ 0.2	Q1	– 0.9	nil	+ 1.2	0.0	May	+ 0.8	May	10.6	Jun§	9.8
Italy	+ 0.8	Q1	– 0.4	+ 0.6	+ 1.6	– 7.0	May	+ 3.0	Apr†	8.7	Apr	9.0
Japan	+ 2.6	Q1	+ 0.6	+ 0.8	+ 0.8	+ 2.8	Jun	– 2.3	May	5.3	Jun	5.4
Netherlands	+ 0.2	Q1	– 0.3	– 0.2	+ 1.3	– 3.7	May	– 0.6	Mar	5.5	Jun**	4.0
Spain	+ 2.1	Q1	+ 2.0	+ 1.9	+ 2.6	– 1.3	May	+ 3.4	May	11.3	May	11.2
Sweden	+ 2.2	Q1	+ 2.4	+ 1.4	+ 2.1	– 1.1	May	+ 2.7	May	4.8	Jun†	4.0
Switzerland	nil	Q1	– 1.0	+ 0.1	+ 1.4	+ 0.9	Q1	+ 0.4	Apr	3.6	Jun†‡	na
United States	+ 2.0	Q1	+ 1.4	+ 2.3	+ 3.4	– 1.0	Jun	+ 6.1	May	6.4	Jun	5.8
Euro area	+ 0.8	Q1	+ 0.1	+ 0.6	+ 1.7	– 1.3	May	+ 2.2	Apr	8.8	May	8.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 1.2	Q1	– 4.9	na	na	– 3.8	Jun	+ 2.3	Apr	9.6	Jun†	9.0
Greece	+ 4.4	Q2	na	na	na	+ 4.1	May	na		na		na
Iceland	+ 3.3	Q1	na	na	na	– 0.3	2002	na		3.2	Jun†	2.3
Ireland	+ 6.4	Q4	na	na	na	+ 2.2	May	– 2.2	May	4.7	Jun	4.4
Luxembourg	+ 1.1	2002	na	na	na	+ 1.1	Apr	+ 3.8	Feb	3.6	May	2.7
New Zealand	+ 3.6	Q1	+ 3.3	na	na	+ 5.9	Q4	+ 6.4	Q1	5.0	Q1	5.3
Norway	+ 0.6	Q1	+ 1.3	na	na	– 5.7	May	+ 3.5	May	4.4	Q1	4.1
Portugal	– 1.2	Q1	+ 0.3	na	na	– 2.6	May	+ 0.3	May	6.4	Q1†	4.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Mar-May; claimant count rate 3.1% in June. §EU harmonised rate 9.4% in June. **Apr-Jun.

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Prices and wages

Jul 31st 2003
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.7	Q2	+ 2.8	+ 2.9	+ 2.5	+ 0.2	Q2	– 1.1	+ 4.3	Q1	+ 4.1
Austria	+ 1.1	Jun	+ 1.7	+ 1.4	+ 1.1	+ 1.7	Jun	– 1.7	+ 2.1	Jun	+ 2.4
Belgium	+ 1.5	Jul	+ 1.3	+ 1.3	+ 1.1	– 0.4	May	– 0.2	+ 1.7	Q2	+ 2.6
Britain	+ 2.9	Jun	+ 1.0	+ 2.8	+ 2.4	+ 1.1	Jun	– 0.1	+ 3.4	May	+ 3.8
Canada	+ 2.6	Jun	+ 1.3	+ 2.9	+ 2.0	– 2.7	Jun	– 1.1	+ 3.5	May	+ 2.8
Denmark	+ 2.2	Jun	+ 2.2	+ 2.3	+ 1.8	– 0.2	Jun	– 1.2	+ 3.9	Q1	+ 4.0
France	+ 2.0	Jun	+ 1.4	+ 1.8	+ 1.3	+ 0.9	Jun	– 1.4	+ 2.9	Q1	+ 4.0
Germany	+ 0.9	Jul	+ 1.2	+ 0.8	+ 0.5	+ 0.5	Jun	– 1.5	+ 1.2	May	+ 3.0
Italy	+ 2.6	Jul	+ 2.2	+ 2.5	+ 1.8	+ 1.5	Jun	– 0.5	+ 1.7	Jun*	+ 2.3
Japan	– 0.4	Jun	– 0.7	– 0.4	– 0.5	– 1.0	Jun	– 2.1	+ 2.3	May	– 0.3
Netherlands	+ 2.2	Jun	+ 3.4	+ 2.4	+ 1.8	+ 2.5	Jun	– 2.2	+ 2.9	May	+ 3.6
Spain	+ 2.7	Jun	+ 3.4	+ 3.0	+ 2.5	+ 0.9	Jun	+ 0.2	+ 4.9	Q1	+ 4.0
Sweden	+ 1.8	Jun	+ 2.0	+ 2.1	+ 1.7	– 1.6	Jun	– 0.6	+ 2.1	May	+ 4.5
Switzerland	+ 0.3	Jul	0.0	+ 0.7	+ 0.7	– 0.7	Jun	– 1.7	+ 1.8	2002	+ 2.5
United States	+ 2.1	Jun	+ 1.1	+ 2.2	+ 1.5	+ 2.9	Jun	– 2.3	+ 3.0	Jun	+ 2.8
Euro area	+ 2.0	Jun	+ 1.9	+ 1.8	+ 1.3	+ 1.3	May	– 0.8	+ 3.0	Q1	+ 3.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.8	Jun	+ 1.1	na	na	– 1.0	Jun	– 2.3	+ 4.1	Q1	+ 3.2
Greece	+ 3.8	Jun	+ 3.3	na	na	+ 2.4	May	+ 1.3	na		na
Iceland	+ 1.6	Jul	+ 4.1	na	na	+ 3.2	Jul	+ 7.1	+ 5.6	Jun	+ 6.9
Ireland	+ 3.5	Jun	+ 4.4	na	na	–10.6	Jun	– 1.9	+ 7.1	Q1	+ 6.9
Luxembourg	+ 1.8	Jun	+ 1.7	na	na	+ 2.4	May	– 2.1	+ 1.3	Apr	– 0.4
New Zealand	+ 1.5	Q2	+ 2.8	na	na	– 1.3	Q1	+ 2.8	+ 2.3	Q1	+ 2.1
Norway	+ 1.7	Jun	+ 0.4	na	na	+ 2.8	Jun	–15.8	+ 5.3	Q1	+ 4.6
Portugal	+ 3.3	Jun	+ 3.4	na	na	+ 0.8	Jun	+ 0.5	+ 1.1	Apr	+ 0.1

*New series.

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Household saving rates

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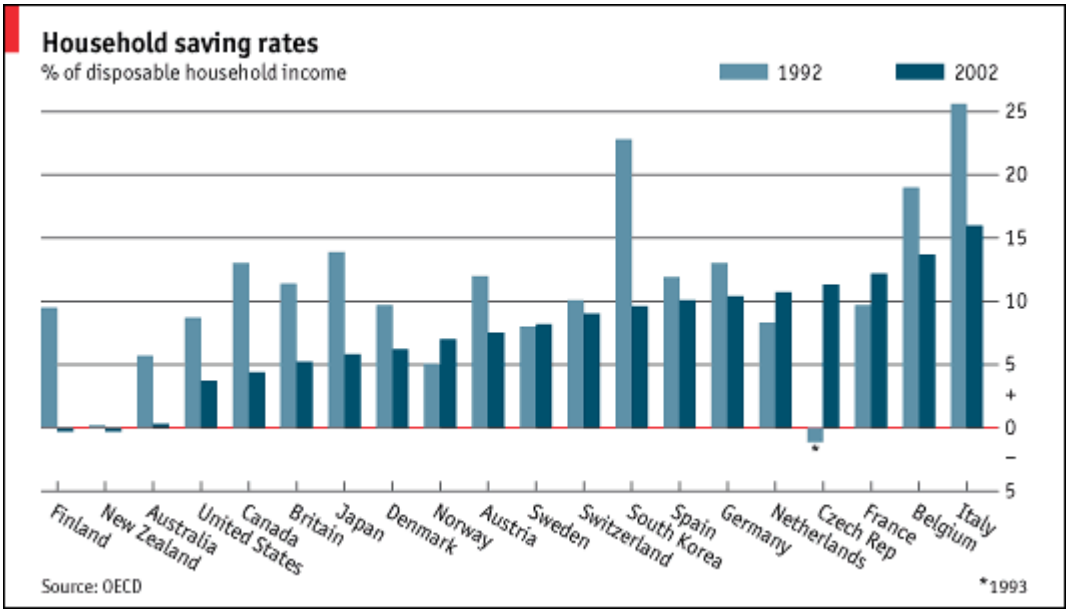

Saving rates in most rich countries have fallen since 1992. In 2002 households in 15 of the 20 countries in our chart saved a smaller share of their disposable income than a decade previously. Two countries, Finland and New Zealand, had negative saving rates last year, compared with only one, the Czech Republic in 1993. Americans' thrift has declined sharply: the saving rate fell from 8.7% in 1992 to 3.7% in 2002.

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Money and interest rates

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	Money supply* % change on year ago			Interest rates % p.a. (Jul 30th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 4.7	+11.6	May	4.76	4.94	4.69	5.51	5.94	6.21
Britain	+ 6.7	+ 8.0	Jun	3.38	3.97	3.38	4.43	4.85	5.84
Canada	+ 8.0	+ 7.4	Jun	2.81	2.83	2.84	4.86	5.28	6.42
Denmark	+10.5	+10.1	Jun	2.25	3.64	2.30	4.24	4.93	5.49
Japan	+ 4.7	+ 1.8	Jun	0.01	0.02	0.07	0.95	1.30	1.04
Sweden	+ 4.0	+ 7.1	May	2.67	4.26	3.03	4.41	5.16	3.61
Switzerland	+24.5	+10.3	Jun	0.29	0.82	0.39	2.49	2.96	3.02
United States	+ 7.0	+ 7.1	Jun	1.03	1.74	1.58	4.31	4.46	6.09
Euro area†	+11.5	+ 8.3	Jun	2.12	3.38	2.35	4.01	4.67	4.00

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. † Germany for bonds. Benchmarks: US 30-year 5.24%, Japan No.251 0.955%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.002%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Jul 31st 2003
From The Economist print edition

1995=100

	Jul 22nd	Jul 29th*	% change on one month	% change on one year
Dollar index				
All items	75.5	76.5	+ 0.6	+ 6.9
Food	74.7	75.8	− 0.6	+ 2.2
Industrials				
All	76.4	77.4	+ 2.4	+13.8
Nfa†	78.6	80.2	+ 0.3	+14.5
Metals	74.6	75.0	+ 4.3	+13.3
Sterling index				
All items	74.4	74.2	+ 2.9	+ 3.4
Euro index				
All items	87.4	87.5	+ 1.4	− 8.3
Yen index				
All items	95.8	97.3	+ 0.9	+ 6.4
Gold				
$ per oz	350.20	362.20	+ 3.0	+18.5
West Texas Intermediate				
$ per barrel	29.78	28.18	− 6.5	+ 3.0

* Provisional. † Non-food agriculturals.

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Stockmarkets

Jul 31st 2003
From The Economist print edition

Market indices

	Jul 30th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,076.9	3,103.1	2,673.3	+ 0.3	-10.6	+ 3.4	+20.2
Austria (ATX)	1,329.6	1,350.3	1,120.2	- 0.7	-23.5	+15.6	+25.5
Belgium (Bel 20)	1,999.7	2,074.1	1,426.6	+ 1.7	-45.7	- 1.3	+ 7.2
Britain (FTSE 100)	4,141.2	4,207.0	3,287.0	+ 1.3	-40.2	+ 5.1	+ 5.6
Canada (Toronto Composite)	7,205.0	7,284.5	6,228.6	- 0.4	-36.7	+ 8.9	+23.1
Denmark (KBX)	185.3	188.8	145.0	+ 0.4	-38.6	+11.4	+20.9
France (SBF 250)	2,148.5	2,154.5	1,630.1	+ 2.4	-51.1	+ 4.6	+13.6
(CAC 40)	3,172.5	3,213.9	2,403.0	+ 2.7	-54.2	+ 3.5	+12.4
Germany (DAX)	3,429.0	3,429.0	2,203.0	+ 3.8	-57.5	+18.5	+28.6
Italy (BCI)	1,161.6	1,195.9	959.4	- 0.1	-46.8	+ 6.4	+15.4
Japan (Nikkei 225)	9,632.7	9,991.0	7,607.9	+ 0.2	-75.2	+12.3	+10.5
(Topix)	944.3	979.4	770.6	+ 0.3	-67.3	+12.0	+10.2
Netherlands (AEX)	311.8	337.3	218.4	+ 1.7	-55.6	- 3.4	+ 4.8
Spain (Madrid SE)	735.6	739.5	576.8	+ 1.8	-35.8	+16.0	+25.9
Sweden (Affarsvarlden Gen)	165.1	165.1	127.8	+ 2.5	-58.8	+13.7	+22.8
Switzerland (Swiss Market)	5,043.6	5,043.6	3,675.4	+ 2.9	-40.0	+ 8.9	+10.6
United States (DJIA)	9,200.1	9,323.0	7,524.1	+ 0.1	-21.5	+10.3	+10.3
(S&P 500)	987.5	1,011.7	800.7	- 0.1	-35.4	+12.2	+12.2
(NASDAQ Comp)	1,720.9	1,754.8	1,271.5	+ 0.1	-65.9	+28.9	+28.9
Europe (FTSE Eurotop 300)*	873.3	890.8	682.7	+ 2.4	-48.8	+ 1.9	+10.6
Euro area (FTSE Ebloc 100)*	749.0	758.6	565.7	+ 2.0	-51.7	+ 4.3	+13.1
World (MSCI)†	886.8	907.3	710.8	+ 0.3	-38.8	na	+11.9
World bond market (Citigroup)‡	551.0	583.9	518.6	- 1.0	- 5.6	na	+ 4.9

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Jul 31st 2003
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Jul 30th	year ago	Currency units per $ Jul 30th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	− 10.8	Jun	− 20.8	Q1	− 5.1	− 4.3	82.8	72.6	1.53	1.84	2.47	1.74	1.27	0.2
Austria	+ 1.0	Apr	+ 2.1	May	+ 0.1	nil	103.0§	100.4	0.88	1.02	1.42	–	0.73	-1.3
Belgium	+ 17.8	May	+ 10.7	Mar	+ 4.7	+ 4.7	103.3§	99.4	0.88	1.02	1.42	–	0.73	nil
Britain	− 73.7	May	− 5.8	Q1	− 1.4	− 1.4	99.0	107.0	0.62	0.64	–	0.70	0.51	-1.9
Canada	+ 36.2	May	+ 13.9	Q1	+ 1.8	+ 1.5	83.8	75.5	1.40	1.58	2.26	1.59	1.16	1.1
Denmark	+ 9.3	May	+ 5.6	May	+ 2.6	+ 2.3	106.6	103.1	6.53	7.58	10.6	7.43	5.41	1.6
France	+ 6.8	May	+ 27.0	May	+ 1.7	+ 1.6	106.8§	102.1	0.88	1.02	1.42	–	0.73	-3.6
Germany	+127.3	May	+ 49.7	May	+ 2.1	+ 1.9	104.4§	98.9	0.88	1.02	1.42	–	0.73	-3.7
Italy	+ 3.6	May	− 13.5	May	− 0.5	− 0.5	76.1§	72.8	0.88	1.02	1.42	–	0.73	-2.4
Japan	+ 95.8	May	+114.9	May	+ 2.2	+ 2.4	126.5	134.5	121	120	195	137	–	-7.7
Netherlands	+ 29.6	May	+ 2.9	Q1	+ 2.5	+ 2.7	102.8§	98.4	0.88	1.02	1.42	–	0.73	-1.6
Spain	− 45.5	May	− 19.0	Apr	− 2.3	− 2.3	77.3§	74.5	0.88	1.02	1.42	–	0.73	-0.4
Sweden	+ 15.6	Jun	+ 11.5	Q1	+ 3.5	+ 3.3	80.6	76.4	8.06	9.51	13.0	9.18	6.69	0.7
Switzerland	+ 5.8	Jun	+ 32.8	Q1	+11.6	+11.3	111.7	115.1	1.36	1.48	2.20	1.55	1.13	na
United States	−525.4	May	−510.2	Q1	− 5.3	− 5.5	104.6	113.5	–	–	1.62	1.14	0.83	-4.6
Euro area	+ 84.4	May	+ 45.3	May	+ 0.7	+ 0.6	90.5	81.6	0.88	1.02	1.42	–	0.73	-2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.8	May	+ 10.0	May	na	na	82.2§	78.5	0.88	1.02	1.42	–	0.73	3.1
Greece	− 23.5	May	− 11.0	May	na	na	59.7§	57.7	0.88	1.02	1.42	–	0.73	-1.0
Iceland	nil	May	nil	Q1	na	na	97.2**	86.2	77.0	85.1	124	87.7	63.9	nil
Ireland	+ 36.5	May	− 2.1	Q1	na	na	95.5§	88.1	0.88	1.02	1.42	–	0.73	-0.8
Luxembourg	− 3.3	May	+ 1.8	Q1	na	na	103.3§	99.4	0.88	1.02	1.42	–	0.73	0.2
New Zealand	− 1.4	Jun	− 1.4	Q1	na	na	99.8	85.6	1.71	2.13	2.77	1.95	1.42	0.8
Norway	+ 27.5	Jun	+ 25.8	May	na	na	98.2	104.1	7.20	7.62	11.6	8.20	5.97	11.3
Portugal	− 12.7	Apr	− 8.6	Apr	na	na	92.7**	89.9	0.88	1.02	1.42	–	0.73	-3.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, May average. ‡OECD forecast. **IMF, March average.

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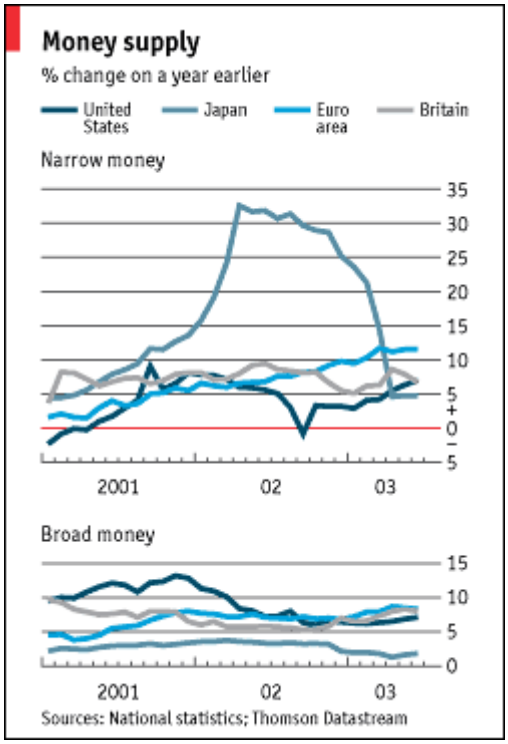
Money supply

Jul 31st 2003
From The Economist print edition



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Overview

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From The Economist print edition

Chile's industrial production rose by 2.2% in the 12 months to June.

South Korean industrial output rose by 7.8% in the 12 months to June, as SARS abated around Asia and a rebound in exports boosted the economy.

Singapore's industrial production fell by 7.3% in the 12 months to June. Although manufacturing output was 2.0% higher than in May, year-on-year output declined for the third consecutive month.

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The Economist poll of forecasters

Jul 31st 2003
From The Economist print edition

Every three months, *The Economist* polls a group of forecasters and averages their predictions for economic growth and current-account balances in 25 emerging economies. As a group, the forecasters have become more pessimistic over the past three months. They have reduced their average predictions for GDP growth in 2003 in 15 countries. SARS has taken its toll on expected growth in East Asian countries. But a few emerging economies have seen sharp improvements in their prospects. In April, the panel of forecasters thought that Turkey would grow by 2.6% in 2003; it now expects growth of 4.4%. Argentina's growth forecast has risen to 4.8%, up from 2.8% in April, but China's has eased slightly to 7.4%.

July

	Real GDP % change		Current account % of GDP	
	2003	2004	2003	2004
China	7.4	7.4	1.1	0.9
Hong Kong	1.5	3.9	10.8	11.6
India	5.7	6.2	0.5	0.5
Indonesia	3.4	4.1	3.2	2.8
Malaysia	3.8	4.8	7.7	7.0
Philippines	3.9	4.1	1.8	1.8
Singapore	1.2	4.5	21.7	20.3
South Korea	2.8	4.9	0.5	0.4
Taiwan	2.6	3.9	7.4	6.9
Thailand	4.6	5.1	4.9	4.1
Argentina	4.8	3.8	7.3	6.1
Brazil	1.7	3.2	−0.8	−1.2
Chile	3.4	4.3	−1.3	−1.5
Colombia	2.3	3.0	−2.1	−2.2
Mexico	2.1	3.7	−2.7	−2.8
Peru	3.8	4.0	−1.8	−1.8
Venezuela	−13.9	6.4	9.7	7.6
Egypt	2.4	3.7	−1.1	−1.3
Israel	0.7	2.5	−0.8	−1.4
South Africa	2.3	3.1	−0.7	−1.0
Turkey	4.4	3.3	−2.9	−1.6
Czech Republic	2.5	3.4	−5.3	−4.4
Hungary	2.9	3.3	−5.4	−5.0
Poland	2.8	3.9	−3.1	−3.3
Russia	5.7	4.7	8.0	4.1

Sources: ABN Amro; Deutsche Bank; Economist Intelligence Unit; Goldman Sachs; HSBC; ING Financial Markets; J.P.Morgan Chase; Merrill Lynch; Citigroup; UBS Warburg.

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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 6.7	Q2	+16.9	Jun	+ 0.3	Jun	+21.5	Jun	+35.4	2002	331.1	Apr
Hong Kong	+ 4.5	Q1	– 8.8	Q1	– 3.1	Jun	– 7.1	Jun	+18.4	Q1	114.4	Jun
India	+ 4.9	Q1	+ 5.7	May	+ 4.7	May	–10.6	May	+ 4.7	Q1	78.2	Jun
Indonesia	+ 3.4	Q1	+18.4	Mar	+ 6.6	Jun	+25.3	May	+ 7.5	Q4	33.0	May
Malaysia	+ 4.0	Q1	+16.2	May	+ 0.8	Jun	+16.3	May	+ 8.5	Q1	35.4	May
Philippines	+ 4.5	Q1	+ 2.6	May	+ 3.4	Jun	– 0.8	May	+ 3.1	Apr	12.7	Jun
Singapore	– 4.3	Q2	– 7.3	Jun	– 0.3	Jun	+12.9	Jun	+21.3	Q1	86.6	Jun
South Korea	+ 3.7	Q1	+ 7.8	Jun	+ 3.2	Jul	+ 8.8	Jun	+ 3.7	Jun	131.6	Jun
Taiwan	+ 3.2	Q1	+ 2.1	Jun	– 0.4	Jun	+16.4	Jun	+25.9	Q1	176.7	Jun
Thailand	+ 6.7	Q1	+12.8	May	+ 1.7	Jun	+ 4.7	Jun	+ 8.7	Jun	38.3	Jun
Argentina	+ 5.1	Q1	+10.9	Jun	+10.2	Jun	+17.1	Jun	+10.1	Q1	12.2	Jun
Brazil	+ 2.0	Q1	– 0.3	May	+16.6	Jun	+20.9	Jun	+ 0.1	Jun	43.4	May
Chile	+ 3.5	Q1	+ 2.2	Jun	+ 3.6	Jun	+ 2.5	Jun	– 0.6	Q1	15.5	Jun
Colombia	+ 3.8	Q1	– 3.3	Apr	+ 7.2	Jun	– 0.4	Apr	– 2.1	Q1	10.4	Jun
Mexico	+ 2.3	Q1	– 2.3	May	+ 4.3	Jun	– 6.5	Jun	–12.7	Q1	52.9	Jun
Peru	+ 1.8	May	– 0.4	May	+ 2.2	Jun	+ 0.5	May	– 1.1	Q1	9.4	Jun
Venezuela	–29.0	Q1	–14.6	Apr	+34.2	Jun	+15.0	Q1	+ 9.5	Q1	10.5	Apr
Egypt	+ 3.1	2002†	+ 4.2	2002†	+ 3.9	May	– 7.1	Mar	+ 1.0	Q1	13.4	Jun
Israel	+ 1.2	Q1	– 5.1	May	– 0.3	Jun	– 6.2	Jun	– 0.5	Q1	24.5	Jun
South Africa	+ 2.5	Q1	– 4.0	May	+ 6.7	Jun	+ 3.2	May	– 0.2	Q1	6.5	Jun
Turkey	+ 8.1	Q1	+ 4.8	May	+29.8	Jun	–14.0	May	– 3.5	May	28.6	Jun
Czech Republic	+ 2.2	Q1	+ 3.2	May	+ 0.3	Jun	– 2.4	Jun	– 4.4	Q1	25.6	Jun
Hungary	+ 2.7	Q1	+ 4.4	May	+ 4.3	Jun	– 3.1	May‡	– 3.7	May	12.4	Jun
Poland	+ 2.2	Q1	+ 7.8	Jun	+ 0.8	Jun	–10.2	May	– 5.6	May	30.9	Jun
Russia	+ 6.8	Q1	+ 7.0	Jun	+14.0	Jun	+52.6	May	+36.4	Q2	60.7	Jun
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*												
Pakistan	+ 3.6	2002†	+15.8	Nov	+ 1.9	Jun	– 1.1	Jun	+ 2.6	2002†	9.7	Apr
Saudi Arabia	+ 0.7	2002§	na		– 1.5	Apr	+38.6	2002§	+11.7	2002	23.1	Apr

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series. §Economist Intelligence Unit estimate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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Financial markets

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From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Jul 30th		Dec 31st 2002	
	Jul 30th	year ago	Jul 30th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.4	na	1,549.1	−1.5	+ 9.2	+ 9.2
Hong Kong	7.99	7.80	12.9	1.20	10,121.2	+2.2	+ 8.6	+ 6.0
India	46.1	48.7	74.5	4.78	3,780.4	+5.7	+ 11.9	+ 16.4
Indonesia	8,510	9,065	13,762	9.52	508.2	−0.9	+ 19.6	+ 25.8
Malaysia	3.80	3.80	6.14	3.10	720.7	+1.1	+ 11.5	+ 11.6
Philippines	54.7	51.3	88.4	8.13	1,228.2	−5.4	+ 20.6	+ 17.8
Singapore	1.76	1.76	2.84	0.69	1,578.2	+1.4	+ 17.7	+ 16.2
South Korea	1,180	1,178	1,908	3.97	714.2	+2.6	+ 13.8	+ 14.4
Taiwan	34.4	33.6	55.5	1.00	5,307.2	+0.4	+ 19.2	+ 20.7
Thailand	42.0	42.0	68.0	1.26	474.9	−1.2	+ 33.2	+ 36.6
Argentina	2.89	3.70	4.67	8.88	763.4	+2.1	+ 45.4	+ 69.3
Brazil	2.94	3.57	4.75	24.30	13,474.6	−2.3	+ 19.6	+ 44.0
Chile	705	705	1,141	2.88	6,260.6	+2.4	+ 24.7	+ 27.4
Colombia	2,885	2,645	4,665	7.81	2,131.7	−4.2	+ 32.5	+ 31.7
Mexico	10.47	9.82	16.9	4.14	7,260.2	−0.3	+ 18.5	+ 18.4
Peru	3.47	3.54	5.61	3.49	1,849.2	+0.7	+ 32.8	+ 34.6
Venezuela	1,598	1,341	2,584	16.76	13,962.3	−4.6	+ 74.2	+ 51.2
Egypt	6.14	4.65	9.92	10.14	8,109.4	−3.5	+ 51.0	+ 13.9
Israel	4.42	4.68	7.15	4.58	430.1	−1.0	+ 29.4	+ 39.0
South Africa	7.4	10.2	11.9	11.10	8,763.6	+2.6	− 5.5	+ 9.8
Turkey	1,426,500	1,693,500	2,306,793	34.00	10,445.0	−0.2	+ 0.7	+ 17.2
Czech Republic	28.2	30.8	45.5	2.26	562.3	+1.8	+ 22.1	+ 30.4
Hungary	232	249	375	9.63	8,247.3	+3.3	+ 5.8	+ 2.6
Poland	3.84	4.18	6.22	5.27	17,894.1	+3.3	+ 24.6	+ 24.3
Russia	30.3	31.5	48.9	16.00	452.6‡	+2.0	+ 19.4	+ 26.1
EMF (MSCI)*	1.00	1.00	1.62	na	351.3	+2.1	na	+ 20.3
EMBI+†	1.00	1.00	1.62	na	265.9	−1.9	na	+ 16.2

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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